

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

HOUSING AUTHORITY OF NEW ORLEANS

SEPTEMBER 30, 2008

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 3/31/10

Housing Authority of New Orleans

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS	14
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS	16
STATEMENT OF CASH FLOWS	17
NOTES TO FINANCIAL STATEMENTS	19
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	43
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	45
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	48
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS	65
SUPPLEMENTAL INFORMATION	
FINANCIAL DATA SCHEDULE	69
SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS	73



Reznick Group, P.C.
525 North Tryon Street
Suite 1000
Charlotte, NC 28202

Tel. (704) 332-9100
Fax (704) 332-8444
www.reznickgroup.com

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Housing Authority of New Orleans

We have audited the accompanying statement of net assets of the Housing Authority of New Orleans (HANO) and its discretely presented component units as of and for the year ended September 30, 2008, as listed in the table of contents. These basic financial statements are the responsibility of HANO's management. Our responsibility is to express an opinion on these financial statements based on our audit. For the year ended September 30, 2008, we did not audit the financial statements of the following three discretely presented component units: Guste I, LLC; Fischer I, LLC; and Fischer III, LLC. The financial statements for those entities reflect total assets of \$42,374,052 and total revenues of \$1,264,686. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to those entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of net assets. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our report dated July 15, 2009, we reported a scope limitation because we were unable to examine records related to activities at one of HANO's public housing sites. We have now been provided with such records. Therefore, our opinion in this report is different than our report issued July 15, 2009.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Authority of New Orleans and its discretely presented component units as of September 30, 2008, and changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 15, 2009, on our consideration of HANO's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant



agreements and other matters. The purpose of that report is to describe the scope of our testing of *internal control over financial reporting* and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 13 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America and the Governmental Accounting Standards Board. We have applied certain limited procedures that consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and we express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Housing Authority of New Orleans taken as a whole. The accompanying supplemental information on pages 69 through 73, including the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and the Financial Data Schedule required by the U.S. Department of Housing and Urban Development, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, based on our audit and the reports of other auditors, the supplemental information on pages 69 through 73 is fairly stated in all material respects in relation to the basic financial statements as a whole.

Reznick Group, P.C.

Charlotte, North Carolina

July 15, 2009 (Except for Notes 9, 20 and 21 as to which the date is December 30, 2009)

Housing Authority of New Orleans

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2008

This section of the Housing Authority of New Orleans (HANO)'s financial report represents management's discussion and analysis of HANO's financial performance during the fiscal year ended September 30, 2008. Please read it in conjunction with HANO's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- HANO's total net assets as of September 30, 2008 were \$368,494,080 as compared to total net assets of approximately \$280,390,792 at September 30, 2007. This represents an increase from the prior year of approximately \$88,103,288 or 31.4%. The main elements of this increase were an increase in cash and cash equivalents that represented the fungibility plan for Section 8 funding.
- During the year, HANO's operating revenues were \$74,971,085 more than the \$207,790,253 expended on Housing Assistance Payments, General & Administrative, Repairs and Maintenance, Utilities, Tenant Services, Protective Services, and Depreciation Expense. In the prior year, operating revenues were \$66,624,422 more than operating expenses.
- For the fiscal year ended September 30, 2008, HANO recognized Low Income and Section 8 operating subsidies of \$71,602,008 (including Public Housing and Capital Fund Operating Subsidies) and \$113,397,834, respectively. HANO also recognized \$9,486,897 in HOPE VI grant revenues, and \$2,408,090 in dwelling rental revenues for the current fiscal year.

Crescent Affordable Housing Corporation (CAHC) was formed in December of 2003, as a component unit of HANO. CAHC is a nonprofit membership corporation established for the purpose of coordinating the development of safe, decent and affordable housing for the low and moderate-income citizens of New Orleans.

Lune d'Or Enterprises, LLC (Lune d'Or) was formed in March of 2004, as a component unit of HANO. Lune d'Or currently serves as the managing member of four Louisiana limited liability companies. CAHC and HANO serve as co-developers with respect to the affordable housing projects being constructed by the four LLC's.

Fischer I, LLC (Fischer I) was formed in March of 2004. Fischer I is a Louisiana limited liability company that had constructed 20 affordable housing units with 20 leased as of September 30, 2008.

Housing Authority of New Orleans

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

September 30, 2008

Fischer III, LLC (Fischer III) had completed all planned 103 units. As of September 30, 2008, 102 units were leased.

Guste I, LLC had completed all planned 82 units. As of September 30, 2008, 82 units were leased.

OVERVIEW OF FINANCIAL STATEMENTS

The annual report consists of three parts - *management's discussion and analysis (this section)*, *the basic financial statements*, and *required supplementary information*. The basic financial statements included in this annual report are those of a special-purpose government engaged in a business-type activity. The following statements are included:

- Statement of Net Assets - reports HANO's assets and liabilities at the end of the operating year and provides information about the nature and amounts of investment of resources and obligations to creditors.
- Statement of Revenue, Expenses, and Change in Net Assets - reports the results of activity over the course of the current year. It details the costs associated with operating HANO and how those costs were funded. It also provides an explanation of the change in net assets from the previous operating period to the current operating period.
- Statement of Cash Flows - reports HANO's cash flows in and out from operating, noncapital financing, capital related financing and investing activities. It details the sources of HANO's cash, what it was used for, and the change in cash over the course of the operating year.
- The notes to the financial statements explain some of the information in the financial statements and provide more detailed data.
- The statements are followed by *required supplementary information* that presents HANO's electronic data submitted to HUD's Real Estate Assessment Center.

Our analysis of HANO as a whole begins on this page. The most important question asked about HANO's finances is, "*Is HANO, as a whole, better or worse off as a result of the year's activities?*"

Housing Authority of New Orleans

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

September 30, 2008

The attached analysis of entity wide net assets, revenue, and expenses are provided to assist with answering the above question. This analysis includes all assets and liabilities using the accrual basis of accounting.

Accrual accounting is similar to the accounting used by most private sector companies. Accrual accounting recognizes revenue and expenses when earned or incurred regardless of when cash is received or paid.

Our analysis also presents HANO's net assets and changes in them. You can think of HANO's net assets as *the difference between what HANO owns (assets) to what HANO owes (liabilities)*. The change in net assets analysis will assist the reader with measuring the health or financial position of HANO.

Net assets are categorized as one of three types.

- I. **Invested in capital assets, net of related debt** - Capital assets, net of accumulated depreciation and reduced by debt attributable to the acquisition of those assets;
- II. **Restricted** - net assets whose use is subject to constraints imposed by law or agreement; and
- III. **Unrestricted** - net assets that are neither invested in capital assets nor restricted.

Over time, significant changes in HANO's net assets are an indicator of whether its financial health is improving or deteriorating. To fully assess the financial health of any Housing Authority, the reader must also consider other non-financial factors such as changes in family composition, fluctuations in the local economy, HUD mandated program administrative changes, and the physical condition of the Housing Authority's capital assets.

Housing Authority of New Orleans

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

September 30, 2008

FINANCIAL ANALYSIS OF THE HANO AS A WHOLE

As noted earlier, net assets may serve over time as a useful indicator of HANO's financial position. In the case of HANO, assets exceeded liabilities by \$368,494,080 at the close of the most recent fiscal year.

As of September 30, 2008, the largest component of HANO's net assets was cash (restricted and unrestricted). This growth in the prior year reflected the result of the Authority's implementation of a fungibility plan whereby unexpended funds from the Section 8 program were consolidated to meet anticipated capital needs for housing redevelopment.

Table A-1
Housing Authority of New Orleans Net Assets

	<u>2008</u>	<u>2007</u>	<u>Variance</u>
Current assets	\$ 255,283,342	\$ 160,207,915	59.3%
Restricted assets	19,595,401	28,585,086	-31.4%
Capital assets (net)	66,488,043	66,614,968	-0.2%
Other assets	<u>110,574,927</u>	<u>96,903,193</u>	<u>14.1%</u>
Total Assets	<u>451,941,713</u>	<u>352,311,162</u>	<u>28.3%</u>
Current liabilities	40,811,843	26,230,845	55.6%
Tenant security deposits	140,820	579,944	-75.7%
Noncurrent liabilities	<u>42,494,970</u>	<u>45,109,581</u>	<u>-5.8%</u>
Total Liabilities	<u>83,447,633</u>	<u>71,920,370</u>	<u>16.0%</u>
Invested in capital assets (net)	66,488,043	44,844,968	48.3%
Restricted net assets	83,652,442	72,077,594	16.1%
Unrestricted net assets	<u>218,353,595</u>	<u>163,468,230</u>	<u>33.6%</u>
Total Net Assets	<u>\$ 368,494,080</u>	<u>\$ 280,390,792</u>	<u>31.4%</u>

The remaining balance of *unrestricted net assets* \$218,353,595 may be used to meet HANO's ongoing obligations to program participants and creditors.

At the end of the current fiscal year, HANO is able to report significant increases in the positive balances in all categories of net assets resulting in a net increase of \$88,103,288.

HANO's current assets increased by \$95,075,427. The main elements of this increase were an

Housing Authority of New Orleans

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

September 30, 2008

increase in cash and cash equivalents that represented the fungibility plan for Section 8 funding.

HANO's restricted assets decreased by \$8,989,685. This decrease resulted from the utilization of restricted cash.

HANO's capital assets decreased by \$126,925 as a net result of the current year's depreciation expense and fixed asset additions.

HANO's other assets increased by \$13,671,734. This increase represents the growth in notes receivable and related accrued interest as a result of HANO's financing of redevelopment activities of its component units.

HANO's current liabilities increased by \$14,580,998. This increase resulted from the deferred revenues associated with the launch of the DHAP program.

HANO's non-current liabilities decreased by \$2,614,611 during the current fiscal year. This decrease resulted primarily from the satisfaction of long-term debt commitments.

Housing Authority of New Orleans
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
September 30, 2008

Table A-2
Housing Authority of New Orleans Changes in Net Assets

	2008	2007	Variance
Revenues:			
Operating Revenues			
Dwelling rental	\$ 2,395,720	\$ 1,933,613	23.90%
HUD revenue	277,212,360	195,966,871	41.46%
Other income	3,153,258	4,154,699	-24.10%
Total Operating Revenues	282,761,338	202,055,183	39.94%
Expenses:			
Administrative and general	36,234,965	44,967,168	-19.42%
Tenant services	1,275,067	4,555,843	-72.01%
Utilities	3,974,768	1,478,598	168.82%
Repairs and maintenance	8,388,808	9,153,992	-8.36%
Protection services	2,027,759	1,725,578	17.51%
General expenses	4,289,323	-	
Housing assistance payments	130,042,066	61,378,999	111.87%
Extraordinary maintenance	20,888,195	11,607,943	79.95%
Depreciation and amortization	669,302	562,640	18.96%
Total Operating Expenses	207,790,253	135,430,761	53.43%
Operating Income (Loss)	74,971,085	66,624,422	12.53%
Nonoperating Revenues (Expenses):			
Investment income	6,030,081	7,561,813	-20.26%
Interest on notes receivable	2,672,780	1,733,486	54.19%
Casualty (gain) loss	-	(2,440,568)	-100.00%
Loss on extinguishment of debt	-	(1,251,388)	-100.00%
Interest expense	(925,823)	(1,010,246)	-8.36%
Total Nonoperating Revenues (Expenses):	7,777,038	4,593,097	69.32%
Income Before Capital Grants	82,748,123	71,217,519	16.19%
Capital Grants			
HUD capital grants	-	39,031	-100.00%
State and city grants	-	749,857	-100.00%
Total Capital Grants	-	788,888	-100.00%
Increase (decrease) in net assets	82,748,123	72,006,407	14.92%
Net Assets - Beginning	280,390,792	209,592,619	33.78%
Prior period adjustment	6,571,202	(1,208,234)	-643.87%
Net Assets - Beginning, as restated	286,961,994	208,384,385	37.71%
Equity transfers	(1,216,037)	-	0.00%
Net Assets - Ending	\$ 368,494,080	\$ 280,390,792	31.42%

Housing Authority of New Orleans
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
September 30, 2008

HANO's revenues from dwelling units increased by \$462,107. This increase is the result of higher occupancy at the HANO public housing sites.

HANO's revenues from HUD operating subsidies and grants increased by \$81,245,489 reflecting the increases in the funding of Section 8 programs and in the operations component of capital fund grants.

HANO's other income declined by \$1,001,441. This decline reflects non-recurring post-Hurricane Katrina grants from FEMA and other entities that were provided in the prior year.

HANO's administrative expenses decreased by \$8,732,203. This decrease reflects the decrease in personnel and other essential needs associated with the Authority's recovery from Hurricane Katrina.

HANO's HAP expenses increased by \$68,663,067 owing to significant increased usage through the HCV program as enabled by increased availability of rental housing as the region recovered from the effect of Hurricane Katrina.

HANO's repairs and maintenance expenses decreased by \$765,184. This decrease reflects reduced personnel expenses as a result of a lay-off late in the prior year.

HANO's utility expenses increased by \$2,496,170. The increase resulted from a larger number of families returning to occupy HANO's public housing sites and negotiated settlements reached with utility companies over disputed bills.

HANO's investment income decreased by \$1,531,732. This resulted from the drop in rates from an average of 5% to a little as .38%. Market conditions do not appear to be improving for the foreseeable future.

Capital Asset and Debt Administration

Capital assets. HANO's investment in capital assets as of September 30, 2008 amounts to \$66,488,043 (net of accumulated depreciation). There was little capital activity in the current year.

Housing Authority of New Orleans
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
September 30, 2008

Major capital asset events during the current fiscal year included the following:

Housing Authority of New Orleans Capital Assets

	<u>2008</u>	<u>2007</u>
Land	\$ 40,853,157	\$ 40,853,157
Buildings and improvements	14,228,766	14,228,766
Furniture and equipment	809,350	266,973.00
Construction in progress	12,366,582	12,366,582
Less: accumulated depreciation	<u>(1,769,812)</u>	<u>(1,100,510)</u>
Total	<u>\$ 66,488,043</u>	<u>\$ 66,614,968</u>

Additional information on HANO's capital assets can be found in note 8 of this report.

Long-term debt - At the end of the current year, HANO had total debt outstanding of \$19,840,000. HANO's Capital Fund Program Revenue Bonds - Series A of 2003 are secured by pledges of Replacement Housing Factor Funds and Capital Fund Grants and are payable in monthly installments through December 1, 2023.

Housing Authority of New Orleans Outstanding Debt

	<u>2008</u>	<u>2007</u>
Capital Fund Program Revenue Bonds- Series A of 2003	<u>\$ 19,840,000</u>	<u>\$ 21,770,000</u>

HANO's total debt decreased by \$1,930,000. This was due to the scheduled pay down of principal.

Economic Factors

Significant economic factors affecting HANO are as follows:

- Federal funding provided by Congress to the Department of Housing and Urban Development;
- local labor supply and demand, which can affect salary and wage rates;

Housing Authority of New Orleans
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

September 30, 2008

- local inflationary, recessionary and employment trends, which can affect resident incomes and therefore tenant rental income;
- natural disasters which can have a devastating impact on the local economy;
- locality issues which result from goods and services often being required to be imported; and
- inflationary pressure on utility rates, supplies and other costs.

Requests for Information

The financial report is designed to provide a general overview of HANO's finances for all those with an interest in the Housing Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Chief Financial Officer, Housing Authority of New Orleans, 4100 Touro Street, New Orleans, Louisiana, 70122.

Housing Authority of New Orleans
STATEMENT OF NET ASSETS
Enterprise Fund and Discretely Presented Component Units

September 30, 2008

	ASSETS		
	(Restated) Primary Government	Discrete Component Units	(Restated) Total Reporting Entity
Current Assets			
Cash and cash equivalents - unrestricted	\$ 224,248,998	\$ 68,698,633	\$ 292,947,631
Investments	9,578,231	-	9,578,231
Accounts receivable - PHA projects	528,146	-	528,146
Accounts receivable - HUD	4,458,884	-	4,458,884
Accounts receivable - other	10,372,703	610,835	10,983,538
Accounts receivable - component units	5,097,482	-	5,097,482
Prepaid expenses	978,332	-	978,332
Inventories	20,566	-	20,566
Total Current Assets	255,283,342	69,309,468	324,592,810
Restricted Assets			
Resident security deposits	74,608	-	74,608
Restricted cash	15,564,108	2,873,762	18,437,870
Restricted bond and grant funds	3,956,685	199,610	4,156,295
Total Restricted Assets	19,595,401	3,073,372	22,668,773
Capital Assets			
Land	40,853,157	-	40,853,157
Buildings and improvements	14,228,766	37,333,438	51,562,204
Furniture, equipment and machinery - dwelling	187,050	-	187,050
Furniture, equipment and machinery - administration	622,300	-	622,300
Construction in progress	12,366,582	32,553,875	44,920,457
	68,257,855	69,887,313	138,145,168
Less: Accumulated depreciation	(1,769,812)	(2,036,861)	(3,806,673)
Total Capital Assets	66,488,043	67,850,452	134,338,495
Other Noncurrent Assets			
Notes receivable from component units, net	70,761,129	-	70,761,129
Notes receivable - other	31,831,275	-	31,831,275
Accrued interest receivable - notes receivable	2,670,383	-	2,670,383
Accrued interest receivable - from component units	5,271,498	-	5,271,498
Prepaid ground lease	-	584,832	584,832
Other assets	40,642	4,338,655	4,379,297
Total Other Noncurrent Assets	110,574,927	4,923,487	115,498,414
Total Assets	451,941,713	145,156,779	597,098,492

(continued)

Housing Authority of New Orleans
STATEMENT OF NET ASSETS - CONTINUED
Enterprise Fund and Discretely Presented Component Units

September 30, 2008

	(Restated) Primary Government	Discrete Component Units	(Restated) Total Reporting Entity
Current Liabilities			
Accounts payable	2,321,703	1,044,751	3,366,454
Accrued wages/taxes payable	900,158	-	900,158
Settlements, judgments and contingencies	2,871,633	-	2,871,633
Accrued expenses	2,938,816	6,379,046	9,317,862
Current portion of long-term debt - capital projects	2,035,000	6,103,089	8,138,089
Deferred revenue	28,035,254	7,385	28,042,639
Other current liabilities	1,500,274	11,895	1,512,169
Accrued compensated absences - current portion	209,005	-	209,005
Total Current Liabilities	40,811,843	13,546,166	54,358,009
Current Liabilities Payable from Restricted Assets			
Resident security deposits	140,820	25,767	166,587
Long-Term Liabilities			
Accrued compensated absences - net of current portion	751,949	-	751,949
Long-term debt - capital projects - net of current portion	17,805,000	-	17,805,000
Long-term debt - capital projects - payable to primary government	-	31,831,275	31,831,275
Long-term debt - capital projects	-	104,838,123	104,838,123
Settlements, judgments and contingencies	20,470,599	-	20,470,599
Other noncurrent liabilities	3,467,422	-	3,467,422
Total Long-Term Liabilities	42,494,970	136,669,398	179,164,368
Total Liabilities	83,447,633	150,241,331	233,688,964
Net Assets			
Invested in capital assets, net of related debt	66,488,043	-	66,488,043
Restricted net assets	83,652,442	-	83,652,442
Unrestricted net assets	218,353,595	(5,084,552)	213,269,043
Total Net Assets	\$ 368,494,080	\$ (5,084,552)	\$ 363,409,528

See notes to financial statements

Housing Authority of New Orleans

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Enterprise Fund

Year ended September 30, 2008

	(Restated) Primary Government	Discrete Component Units	(Restated) Total Reporting Entity
Operating Revenue			
Dwelling rent	\$ 2,395,720	\$ 843,447	\$ 3,239,167
HUD operating subsidy and grant revenue	277,212,360	-	277,212,360
Other income	3,153,258	818,796	3,972,054
Total Operating Revenue	282,761,338	1,662,243	284,423,581
Operating Expenses			
Administrative	36,234,965	551,314	36,786,279
Tenant services	1,275,067	-	1,275,067
Utilities	3,974,768	178,721	4,153,489
Maintenance and operations	8,388,808	153,776	8,542,584
Protective services	2,027,759	-	2,027,759
General	4,289,323	381,530	4,670,853
Housing assistance payments	130,042,066	-	130,042,066
Extraordinary maintenance	20,888,195	-	20,888,195
Depreciation	669,302	1,444,736	2,114,038
Total Operating Expense	207,790,253	2,710,077	210,500,330
Operating Income (Loss)	74,971,085	(1,047,834)	73,923,251
Nonoperating Revenues (Expenses)			
Investment income	6,030,081	455,586	6,485,667
Investment income from notes receivable	2,672,780	-	2,672,780
Interest expense	(925,823)	(2,672,780)	(3,598,603)
Total Nonoperating Revenues (Expenses)	7,777,038	(2,217,194)	5,559,844
Change in Net Assets	82,748,123	(3,265,028)	79,483,095
Net Assets - Beginning	280,390,792	(2,398,625)	277,992,167
Prior period adjustment	6,571,202	(636,936)	5,934,266
Net Assets - Beginning, as restated	286,961,994	(3,035,561)	283,926,433
Equity transfers	(1,216,037)	1,216,037	-
Net Assets - Ending	\$ 368,494,080	\$ (5,084,552)	\$ 363,409,528

See notes to financial statements

Housing Authority of New Orleans

STATEMENT OF CASH FLOWS
Enterprise Fund

Year ended September 30, 2008

	Primary Government
Cash flows from operating activities	
Dwelling rent receipts	\$ 2,236,997
Operating subsidy and grant receipts	272,994,431
Other income receipts	3,118,589
Total receipts	<u>278,350,017</u>
Payments to vendors	(73,097,247)
Payments to employees	(17,937,057)
Housing assistance payments	(133,109,510)
Total disbursements	<u>(224,143,814)</u>
Net cash provided by operating activities	<u>54,206,203</u>
Cash flows from investing activities	
Investment income	3,377,590
Increase in notes receivable	(9,894,526)
Decrease in investments	<u>(66,162)</u>
Net cash used by investing activities	<u>(6,583,098)</u>
Cash flows from capital and related financing activities	
Capital asset purchases	(542,377)
Capital grants - state and city	28,042,639
Payment of long-term debt	(1,930,000)
Interest paid on long-term debt	<u>(925,823)</u>
Net cash provided by capital and related financing activities	<u>24,644,439</u>
Cash flows from other financing activities	
Cash transferred from discrete component unit	<u>234,938</u>
Net cash provided by other financing activities	<u>234,938</u>
NET INCREASE IN CASH	72,502,482
Cash and cash equivalents, beginning	<u>167,385,232</u>
Cash and cash equivalents, ending	<u>\$ 239,887,714</u>
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents- unrestricted	\$ 224,248,998
Restricted cash	15,564,108
Resident security deposits	<u>74,608</u>
	<u>\$ 239,887,714</u>

(continued)

Housing Authority of New Orleans
STATEMENT OF CASH FLOWS- CONTINUED
Enterprise Fund

Year ended September 30, 2008

	(Restated) Primary Government
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 74,971,085
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	669,302
Changes in asset and liability accounts	
(Increase) decrease in assets	
Accounts receivable - tenants	280,401
Accounts receivable - HUD	(4,217,929)
Accounts receivable - other	(18,003)
Prepaid expense	1,019,356
Increase (decrease) in liabilities	
Accounts payable	(186,798)
Accounts payable - HUD	(3,067,444)
Accrued wages/taxes payable	327,985
Settlements, judgments and contingencies	(1,897,953)
Homebuyers reversers	(1,524,082)
Other current liabilities	2,415,326
Deferred revenue	(13,785,424)
Tenant security deposits payable	(439,124)
Accrued compensated absences	(340,495)
Total adjustments	(20,764,882)
Net cash provided by operating activities	\$ 54,206,203

See notes to financial statements

Housing Authority of New Orleans
NOTES TO FINANCIAL STATEMENTS

September 30, 2008

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

Organization

The Housing Authority of New Orleans (HANO or the Authority) is a public body corporate and politic established on September 29, 1936, pursuant to the laws of the State of Louisiana, to provide low-rent housing for qualified individuals in accordance with the rules and regulations prescribed by the Department of Housing and Urban Development (HUD) and other Federal Agencies. The primary purpose of HANO is to provide safe, decent, sanitary, and affordable housing to low-income, elderly, and disabled families in New Orleans, Louisiana.

Reporting Entity

GASB Statement No. 14, *The Financial Reporting Entity*, established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under the provisions of this Statement, HANO is considered a primary government because it is a special purpose government that has a separate governing body, is legally separate, and is fiscally independent of other state or local governments.

HANO is a related organization of the City of New Orleans since Commissioners are appointed by the Mayor of the City of New Orleans. The City of New Orleans is not financially accountable for HANO as it cannot impose its will on HANO and there is no potential for HANO to provide financial benefit to, or impose financial burdens on, the City of New Orleans. Accordingly, HANO is not a component unit of the financial reporting entity of the City of New Orleans. HANO has been determined to be a "Troubled Agency" by HUD, and HUD has appointed an Executive Administrator to act as the Executive Director and has replaced HANO's Board of Commissioners with its own appointed Board.

In determining how to define the reporting entity, management has considered all potential component units. The determination to include a component unit in the reporting entity was made by applying the criteria set forth in Section 2100 and 2600 of the Codification of Governmental Accounting and Financial Reporting Standards and GASB Statement No. 14 (amended) and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. These criteria include manifestation of oversight responsibility; including financial accountability, appointment of a voting majority, imposition of will, financial benefit to or burden on a primary organization, financial accountability as a result of fiscal

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2008

dependency, potential dual inclusion, and organizations included in the reporting entity although the primary organization is not financially accountable.

As part of a major redevelopment plan, HANO formed a non-profit corporation and several separate limited liability companies.

Crescent Affordable Housing Corporation (CAHC) was formed in December 2003 as a non-profit membership corporation, in which HANO serves as the sole member, for the purpose of coordinating the development of safe, decent and affordable housing to low and moderate-income citizens of New Orleans. CAHC has applied for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code (the Code) as a supporting organization under Section 509(a)(3) of the Code, the sole purpose of which is to carry out the affordable housing mission of HANO.

Lune d'Or Enterprises, LLC (Lune d'Or), a Louisiana Limited Liability Company, whose sole member is CAHC, was formed in March 2004. Lune d'Or currently serves as the managing member of four Louisiana limited liability companies, each of which will own a single affordable housing project qualified for low-income housing tax credits. The purpose of the four LLC's is to redevelop or construct mixed income housing. CAHC and HANO will serve as co-developers with respect to these affordable housing projects.

Place D'Genesis, LLC, a Louisiana Limited Liability Company, whose sole member is CAHC, was formed in January of 2007. The purpose of the Limited Liability Company is to acquire, finance, construct, redevelop and rehabilitate affordable and/or market rate housing as a for-profit subsidiary and on behalf of CAHC.

Fischer I, LLC, whose sole managing member is Lune d'Or, was formed in March 2004. The Fischer I project will be financed using tax credit equity investments.

Fischer III, LLC, Florida II-A, LLC, and Guste I, LLC's, whose sole managing member is Lune d'Or, were formed in December 2003. The Fischer III, Florida II-A and Guste I projects will be funded with mixed-financing which will include, but not be limited to, funds borrowed pursuant to the Trust Indenture between HANO, JP Morgan Trust Company, NA and the Industrial Development Board of the City of New Orleans, Louisiana, Inc (the Bond Issuer), from the proceeds of the Capital Fund Program Revenue Bonds, Series A of 2003 (the Bonds), tax credit equity investment funds, construction loans from a conventional lender, and Affordable Housing Program grant funds from the Federal Home Loan Bank.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2008

During 2006, the following development projects were awarded tax credits from the Louisiana Housing Finance Agency: Fischer IV-3, LLC; CJ Peete I, LLC; Tchoupitoulas, LLC; Mazant Royal, LLC; Imperial I, LLC; Imperial II, LLC; General Ogden, LLC; B.W. Cooper I, LLC; St. Bernard, LLC; CJ Peete III, LLC; and Guste IIB, LLC. The sole managing member for these entities is Lune d'Or. The carryover for each of the projects was successfully achieved. It was the intention of the Authority to self-develop all of these sites as none of them flooded during Hurricane Katrina. In 2007, it was decided that the cost of these projects at the time were not financially feasible to HANO due to the high cost of property insurance and construction. It has been decided that only Fischer IV-3 and CJ Peete I would go forward with development since they are part of existing phases.

CAHC, Lune d'Or, Place D'Genesis, and Florida IIA are component units of HANO and are reported as blended component units. Fischer I, Fischer III, Fischer IV-3, Guste I, Guste IIB, B.W. Cooper I, Imperial Drive I, Imperial Drive II, Tchoupitoulas, Mazant Royal, CJ Peete I, CJ Peete III, St. Bernard, and General Ogden are reported as discretely presented component units of HANO.

HANO has an additional subsidiary/affiliate organization; the HANO Resident Loan Corporation, Inc. Based upon the application of the criteria mentioned above HANO Resident Loan Corporation, Inc. is a discretely presented component unit of HANO.

Programs Administered by HANO

The main programs of HANO are as follows:

- Low-Rent Public Housing under Annual Contributions Contract FW-1190 and related programs for development, modernization, community development, and resident assistance.

- Housing Choice Voucher Program (formerly Section 8 Rental Assistance Program):

Rental Vouchers	FW-2217
Moderate Rehabilitation/Single Room Occupancy	FW-2147
New Construction	FW-2201

- Locally Owned Homeownership Program
- Resident-Managed Low-Rent Public Housing

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2008

Basis of Presentations and Accounting

In accordance with both Louisiana State Reporting Law (LAS-R.S.24:514) and uniform financial reporting standards for HUD housing programs, the financial statements are prepared in accordance with United States generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing accounting and financial reporting standards.

Based upon compelling reasons offered by HUD, HANO reports under the governmental proprietary fund type (enterprise fund), which uses the accrual basis of accounting. The enterprise fund emphasizes the flow of economic resources as a measurement focus. In this fund, revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred. Pursuant to the election option made available by GASB Statement No. 20, *Accounting and Financial Reporting for Propriety Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 are applied in the preparation of the financial statements.

The enterprise method is used to account for those operations that are financed and operated in a manner similar to private business, or where the Board has decided that the determination of revenues earned, costs incurred, and/or net income necessary for management accountability is appropriate. The intent of the governing body is that the costs (expenses including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through funding from HUD and charges to residents for rent and other fees.

All of HANO's programs are accounted for as one business-type activity reported in a single enterprise fund.

Budgets

Budgets are prepared on an annual basis for each major operating program and are used as a management tool throughout the accounting cycle. The capital fund budgets are adopted on a "project length" basis. Budgets are not, however, legally adopted nor legally required for financial statement presentation.

Operating Revenue and Expenses

Operating revenues and expenses consist of revenues earned and expenses incurred as a result of the principal operations of HANO. Operating revenues consist of tenant rents and

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2008

fees and HUD operating grants. Non-operating revenues consist of investment income and other non-operating revenues. Non-operating expenses consist of interest expense.

Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, interest-bearing demand deposits, and time deposits and other investments with original maturities of 90 days or less. Under state law, HANO may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

Investments

Investments are recorded at fair value. Investment instruments consist only of items specifically approved for public housing agencies by the U.S. Department of Housing and Urban Development. Investments are either insured or collateralized using the dedicated method. Under the dedicated method of collateralization, all deposits and investments over the federal depository insurance coverage are collateralized with securities held by HANO's agent in HANO's name. It is HANO's policy that all funds on deposit are collateralized in accordance with both HUD requirements and requirements of the State of Louisiana.

Inventories

Inventories are valued at cost using the First-In, First-Out (FIFO) method. If inventory falls below cost due to damage, deterioration, or obsolescence, HANO establishes an allowance for obsolete inventory. HANO uses the consumption method for expense recognition and relies upon its periodic (annual) inventory for financial reporting purposes.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items.

Restricted Assets

Certain assets may be *classified* as restricted assets on the statement of net assets because their use is restricted for modernization programs, security deposits held in trust, family self-sufficiency program escrows, and homebuyers' reserves, among others.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2008

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The carrying amount of HANO's financial instruments at September 30, 2008 including cash, investments, accounts receivable, and accounts payable closely approximates fair value.

Capital Assets

All purchased capital assets are valued at cost when historical records are available. When no historical records are available, capital assets are valued at estimated historical cost. Land values were derived from development closeout documentation. Donated capital assets are recorded at their fair value at the time they are received. All normal expenditures of preparing an asset for use are capitalized when they meet or exceed the capitalization threshold.

Pursuant to the enterprise GAAP method, the cost of buildings and equipment is depreciated over the estimated useful lives of the related assets on a composite basis using the straight-line method. Depreciation commences on modernization and development additions in the year following completion, or in the fifth year if the program is 90% complete. The useful lives of buildings and equipment for purposes of computing depreciation are as follows:

Buildings	27 ½ years
Building modernization	10 years
Vehicles	5 years
Equipment	5 years

Maintenance and repairs expenditures are charged to operations when incurred. Betterments in excess of \$5,000 are capitalized. When land, buildings and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2008

Impairment of Long-Lived Assets

In accordance with GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, the Authority has at September 30, 2008 recognized in the accompanying financial statements the impact of demolition activities and impairment related to the hurricane. Under the provisions of the statement, prominent events or changes in circumstances affecting capital assets are required to be evaluated to determine whether impairment of a capital asset has occurred. Impaired capital assets that will no longer be used should be reported at the lower of carrying value or fair value. Impairment of capital assets with physical damage generally should be measured using the restoration cost approach, which uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written-off. In the year ended September 30, 2005, impairment was recorded on the majority of the Authority's capital assets.

Compensated Absences

Compensated absences are those absences for which employees will be paid, such as annual vacation and sick leave. A liability for compensated absences for annual/vacation leave that is attributable to services already rendered and that is not contingent on a specific event, outside the control of HANO and its employees, is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of HANO and its employees are accounted for in the period in which such services are rendered or in which such events take place.

Litigation Losses

HANO recognizes estimated losses related to litigation in the period in which the event-giving rise to the loss occurs, the loss is probable, and the loss can be reasonably estimated.

Annual Contribution Contracts

Annual Contribution Contracts provide that HUD shall have the Authority to audit and examine the records of public housing authorities. Accordingly, final determination of HANO's financing and contribution status for the Annual Contribution Contracts is determined by HUD based upon financial reports submitted by HANO.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2008

Risk Management

HANO is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. HANO carries commercial insurance for risks of loss regarding workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years, with the exception of automobile liability insurance claims, which exceed coverage by \$1,600,000. Additionally, there has been no significant reduction in insurance coverage from the prior year. For other risks regarding property and general liability, HANO is self-insured (see notes 9 and 10).

NOTE 2 - DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents

It is the Authority's policy for deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance. It is HANO's policy to maintain collateralization in accordance with HUD requirements. All balances are collateralized at 102% in accordance with requirements of collateralization agreement.

Investments

Investments consist of certificates of deposits and government securities. It is the policy of the Authority that investments be secured by collateral valued at market or par, whichever is lower, less the amount of FDIC insurance.

Risks

Interest rate risk - The Authority's policy does not address interest rate risk.

Credit rate risk - The Authority's investments consist of certificates of deposits, which do not have credit ratings, and government securities; however, the Authority's policy does not address credit rate risk.

Custodial credit risk - This is the risk that in the event of a bank failure, the Authority's deposits and investments may not be returned to it. As of September 30, 2008, \$254,922,933 of the Authority's deposits and investments were exposed to this risk because the amounts were in excess of FDIC insurance limits and the accounts were collateralized with securities

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2008

held by the pledging financial institutions in the Authority's name. The following schedule summarizes the custodial credit risk:

	Balance Reported on the Authority's Financial Statements	Balance Deposited with the Financial Institution	FDIC Insurance	Uninsured Amount (Fully Collateralized)
Bank deposits	\$239,887,714	\$242,651,837	\$ 1,260,221	\$ 241,391,616
Funds held by trustees - government securities	3,956,685	3,953,086	-	3,953,086
Certificates of Deposits	9,578,231	9,578,231	-	9,578,231
Total	<u>\$253,422,630</u>	<u>\$256,183,154</u>	<u>\$ 1,260,221</u>	<u>\$ 254,922,933</u>

Cash and cash equivalents are reported on the statement of net assets as follows:

Cash and cash equivalents - unrestricted	\$ 224,248,998
Cash and cash equivalents - restricted	15,564,108
Cash and cash equivalents - security deposits	<u>74,608</u>
Total cash and cash equivalents	<u>\$ 239,887,714</u>

Investments are reported on the statement of net assets as follows:

Investments - unrestricted	\$ 9,578,231
Restricted bond and grant funds	<u>3,956,685</u>
	<u>\$ 13,534,916</u>

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2008

NOTE 3 - RESTRICTED CASH

Restricted cash as of September 30, 2008 consisted of the following:

Orleans Parish School Board Escrow	\$ 62,703
Family self-sufficiency	378,700
Insurance escrow	14,335,168
Other restricted cash	<u>787,537</u>
	<u>\$ 15,564,108</u>

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable as of September 30, 2008 consisted of the following:

Accounts receivable - tenants	\$ 680,215
Allowance for doubtful accounts	<u>(680,215)</u>
Net tenant receivables	-
HUD (see note 5 for detail)	4,458,884
Advances to development projects	15,470,105
Receivable from PHA projects, net	528,146
Other	<u>80</u>
	<u>\$ 20,457,215</u>

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2008

NOTE 5 - DUE FROM/TO U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Amounts due from HUD as of September 30, 2008 were as follows:

1996 HOPE VI - St. Thomas	\$ 685
2005 HOPE VI	5,163
2004 CFP	75,037
2005 CFP	329,493
2006 CFP	1,803,536
2007 CFP	1,839,053
2008 CFP	94,933
2005 Replacement Housing	310,984
	<hr/>
	\$ 4,458,884

NOTE 6 - PREPAID EXPENSES

Prepaid expenses as of September 30, 2008 consisted of prepaid insurance of \$978,332.

NOTE 7 - NOTES RECEIVABLE

Abundance Square Associates

HANO has a note receivable with Abundance Square Associates, Limited Partnership in the maximum original amount of \$2,577,025. The note was issued to partially finance the construction of public housing, which will be owned and operated by the borrower. The interest rate on the note is 4.78%. All principal and accrued interest is due at December 31, 2043. The balance outstanding at September 30, 2008 was \$2,160,508, plus accrued interest receivable of \$494,551.

Treasure Village Associates

HANO has a note receivable with Treasure Village Associates, Limited Partnership in the maximum original amount of \$1,100,000. The note was issued to partially finance the construction of public housing, which will be owned and operated by the borrower. The interest rate on the note is 5.09%. All principal and accrued interest is due at December 31, 2053. The balance outstanding at September 30, 2008 was \$1,100,000, plus accrued interest receivable of \$266,637.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2008

St. Thomas HOPE VI

HANO has a note receivable with LGD Rental I, LLC in the original amount of \$13,360,800. The note was issued to partially finance the rehabilitation and revitalization of HOPE VI apartment complexes. The note accrues interest at 1% per annum. Principal and accrued interest are payable from cash flow, as defined. All principal and accrued interest is due at October 1, 2043. The balance outstanding at September 30, 2008 was \$13,360,800 plus accrued interest of \$679,211.

HANO has a note receivable with LGD Rental I, LLC in the original amount of \$10,519,620. The note was issued to partially finance the rehabilitation and revitalization of HOPE VI apartment complexes. The note accrues interest at 1% per annum. Principal and interest are payable from cash flow, as defined. All principal and accrued interest is due at October 1, 2043. The balance outstanding at September 30, 2008 was \$10,519,620 plus accrued interest of \$230,879.

HANO has a note receivable with LGD Rental II, LLC in the original amount of \$1,881,000. The note was issued to partially finance the rehabilitation and revitalization of HOPE VI apartment complexes. The note accrues interest at 1% per annum. Principal and interest are payable from cash flow, as defined. All principal and accrued interest is due at January 1, 2064. The balance outstanding at September 30, 2008 was \$1,489,435 plus accrued interest of \$11,171.

Guste I, LLC

HANO has a construction mortgage note receivable with Guste I, LLC, a component unit, in the original amount of \$10,634,312. The note accrues interest at 3% per annum. Principal and accrued interest is due at February 1, 2007. The balance outstanding at September 30, 2008 was \$10,634,315 plus accrued interest of \$1,269,308.

HANO has a program income loan construction mortgage note receivable with Guste I, LLC in the original amount of \$248,999. The note accrues interest at 3% per annum. Principal and accrued interest is due at January 31, 2060. The balance outstanding at September 30, 2008 was \$248,999 plus accrued interest of \$9,261.

HANO has a supplemental loan agreement with Guste I, LLC in the maximum original amount of \$2,939,498. The note was issued for the purpose of paying cost overruns incurred in the construction of the project. No interest will be charged on this note. Principal shall be payable in monthly installments from surplus cash. Full repayment of any outstanding

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2008

principal will be due at maturity on November 1, 2061. The balance outstanding at September 30, 2008 was \$2,939,498.

Fischer I, LLC

HANO has a program income loan construction mortgage note receivable with Fischer I, LLC, a component unit, in the original amount of \$196,300. The note accrues interest at 4.76% per annum. Principal and accrued interest is due at January 31, 2060. The balance outstanding at September 30, 2008 was \$196,300 plus accrued interest of \$3,683.

HANO has a capital fund loan with Fischer I, LLC. The loan bears interest at the applicable federal rate. All unpaid principal and interest is due on January 31, 2060. The note accrues interest at 4.68% per annum. Payments on the loan are paid with surplus cash. The outstanding balance at September 30, 2008 was \$1,424,059 plus accrued interest of \$133,292.

HANO has a supplemental loan agreement with Fischer I, LLC in the maximum original amount of \$130,000. The note was issued for the purpose of paying cost overruns incurred in the construction of the project. No interest will be charged on this note. Principal shall be payable in monthly installments from surplus cash. Full repayment of any outstanding principal will be due at maturity on November 1, 2061. The balance outstanding at September 30, 2008 was \$130,000.

Fischer III, LLC

HANO has a construction mortgage note receivable with Fischer III, LLC, a component unit, in the original amount of \$14,710,628. The note accrues interest at 3% per annum. Principal and accrued interest is due at February 1, 2008. Pursuant to the Note, any amount outstanding after the maturity date bears interest annually at 12%. As of September 30, 2008 the loan from Fischer III is in default. The balance outstanding at September 30, 2008 was \$14,710,628 plus accrued interest of \$2,749,145.

HANO has a program income loan construction mortgage note receivable with Fischer III, LLC in the original amount of \$344,314. The note accrues interest at .5% per annum. Principal and accrued interest is due at January 31, 2060. The balance outstanding at September 30, 2008 was \$344,314 plus accrued interest of \$6,458.

HANO has a supplemental loan agreement with Fischer III, LLC in the maximum original amount of \$3,064,919. The note was issued for the purpose of paying cost overruns incurred in the construction of the project. No interest will be charged on this note. Principal shall be

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2008

payable in monthly installments from surplus cash. Full repayment of any outstanding principal will be due at maturity on November 1, 2061. The balance outstanding at September 30, 2008 was \$3,064,919.

B.W. Cooper I, LLC

HANO has a predevelopment loan agreement with B.W. Cooper I, LLC, a component unit, in the maximum original amount of \$1,500,000. The note will accrue interest monthly at a rate of 4.89%. Unpaid principal and all accrued and unpaid interest will be due at the earlier of equity and construction loan closing or December 31, 2007. On September 24, 2007, the maturity date was extended to December 31, 2008. The balance outstanding at September 30, 2008 was \$1,500,000. Accrued interest at this date is \$134,476.

HANO has a developer services agreement with B.W. Cooper I, LLC in the maximum original amount of \$10,926,688. The note will be come due based on certain events that occur during construction. The note will accrue interest monthly at a rate of 4.89%. Unpaid principal and accrued interest will be due as close to the date the amounts are earned by HANO as possible; all unpaid principal will be due at maturity on December 31, 2019. The balance outstanding at September 30, 2008 was \$8,874,006. Accrued interest at this date is \$433,939.

St. Bernard I, LLC

HANO has a predevelopment loan agreement with St. Bernard I, LLC, a component unit, in the maximum original amount of \$1,500,000. The note will accrue interest monthly at a rate of 4.89%. Unpaid principal and all accrued and unpaid interest will be due at the earlier of equity and construction loan closing or December 31, 2007. On September 24, 2007, the maturity date was extended to December 31, 2008. The balance outstanding at September 30, 2008 was \$1,500,000. Accrued interest at this date is \$134,456.

HANO has a developer services agreement with St. Bernard I, LLC in the maximum original amount of \$11,359,118. The note will accrue interest monthly at a rate of 4.89%. Unpaid principal and accrued interest will be due as close to the date the amounts are earned by HANO as possible; all unpaid principal will be due at maturity on December 31, 2019. The balance outstanding at September 30, 2008 was \$11,359,118. Accrued interest at this date is \$555,461.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2008

Guste IIB, LLC

HANO has a predevelopment loan agreement with Guste IIB, LLC, a component unit, in the maximum original amount of \$1,300,000. The note will accrue interest monthly at a rate of 4.89%. Unpaid principal and all accrued and unpaid interest will be due at the earlier of equity and construction loan closing or December 31, 2007. At December 31, 2007 the loan was not repaid or extended. In October 2008, \$1,166,470 was paid on accrued interest and principal. The balance outstanding at September 30, 2008 was \$1,300,000. Accrued interest at this date is \$121,843.

Fischer IV Part 3, LLC

HANO has a predevelopment loan agreement with Fischer IV Part 3, LLC in the maximum original amount of \$1,300,000. The note will accrue interest monthly at a rate of 4.89%. Unpaid principal and all accrued and unpaid interest will be due at the earlier of equity and construction loan closing or December 31, 2007. At December 31, 2007 the loan was not repaid or extended. In October 2008, \$884,466 was paid on accrued interest and principal. The balance outstanding at September 30, 2008 was \$1,300,000. Accrued interest at this date is \$58,273.

C.J. Peete I, LLC

HANO has a predevelopment loan agreement with C.J. Peete I, LLC, a component unit, in the maximum original amount of \$1,500,000. The note will accrue interest monthly at a rate of 4.89%. Unpaid principal and all accrued and unpaid interest will be due at the earlier of equity and construction loan closing or December 31, 2007. At December 31, 2007 the loan was not repaid or extended. The balance outstanding at September 30, 2008 was \$1,500,000. Accrued interest at this date is \$67,238.

C.J. Peete III, LLC

HANO has a predevelopment loan agreement with C.J. Peete III, LLC, a component unit, in the maximum original amount of \$1,500,000. The note will accrue interest monthly at a rate of 4.89%. Unpaid principal and all accrued and unpaid interest will be due at the earlier of equity and construction loan closing or December 31, 2007. On September 24, 2007, the maturity date was extended to December 31, 2008. The balance outstanding at September 30, 2008 was \$1,500,000. Accrued interest at this date is \$67,238.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2008

HANO has a developer services agreement with C.J. Peete III, LLC, a component unit, in the maximum original amount of \$11,108,424. The note will be come due based on certain events that occur during construction. The note will accrue interest monthly at a rate of 4.89%. Unpaid principal and accrued interest will be due as close to the date the amounts are earned by HANO as possible; all unpaid principal will be due at maturity on December 31, 2019. The balance outstanding at September 30, 2008 was \$7,308,754. Accrued interest at this date is \$357,398.

General Ogden, LLC

HANO has a predevelopment loan agreement with General Ogden, LLC, a component unit, in the maximum original amount of \$700,000. The note will accrue interest monthly at a rate of 4.89%. Unpaid principal and all accrued and unpaid interest will be due at the earlier of equity and construction loan closing or December 31, 2007. At December 31, 2007 the loan was not repaid or extended. In October 2008, \$269,165 was paid on accrued interest and principal. The balance outstanding at September 30, 2008 was \$700,000. Accrued interest at this date is \$31,378.

Imperial Drive I, LLC

HANO has a predevelopment loan agreement with Imperial Drive I, LLC, a component unit, in the maximum original amount of \$700,000. The note will accrue interest monthly at a rate of 4.89%. Unpaid principal and all accrued and unpaid interest will be due at the earlier of equity and construction loan closing or December 31, 2007. At December 31, 2007 the loan was not repaid or extended. In October 2008, \$401,591 was paid on accrued interest and principal. The balance outstanding at September 30, 2008 was \$700,000. Accrued interest at this date is \$31,378.

Imperial Drive II, LLC

HANO has a predevelopment loan agreement with Imperial Drive II, LLC, a component unit, in the maximum original amount of \$700,000. The note will accrue interest monthly at a rate of 4.89%. Unpaid principal and all accrued and unpaid interest will be due at the earlier of equity and construction loan closing or December 31, 2007. At December 31, 2007 the loan was not repaid or extended. In October 2008, \$431,844 was paid on accrued interest and principal. The balance outstanding at September 30, 2008 was \$700,000. Accrued interest at this date is \$31,378.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2008

Mazant Royal, LLC

HANO has a predevelopment loan agreement with Imperial Mazant Royal, LLC, a component unit, in the maximum original amount of \$700,000. The note will accrue interest monthly at a rate of 4.89%. Unpaid principal and all accrued and unpaid interest will be due at the earlier of equity and construction loan closing or December 31, 2007. At December 31, 2007 the loan was not repaid or extended. In October 2008, \$454,613 was paid on accrued interest and principal. The balance outstanding at September 30, 2008 was \$700,000. Accrued interest at this date is \$31,378.

Tchoupitoulas, LLC

HANO has a predevelopment loan agreement with Tchoupitoulas, LLC, a component unit, in the maximum original amount of \$700,000. The note will accrue interest monthly at a rate of 4.89%. Unpaid principal and all accrued and unpaid interest will be due at the earlier of equity and construction loan closing or December 31, 2007. At December 31, 2007 the loan was not repaid or extended. In October 2008, \$460,456 was paid on accrued interest and principal. The balance outstanding at September 30, 2008 was \$700,000. Accrued interest at this date is \$31,378.

New Savoy Place Apartments, LP

HANO has a development loan agreement with New Savoy Place Apartments, LP, in the maximum original amount of \$17,356,600. The note will not accrue interest. Unpaid principal will be due on June 1, 2048. The balance outstanding at September 30, 2008 was \$3,200,910.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2008

An allowance has been recorded to represent the uncollectibility of the predevelopment loans to CJ Peete I, LLC; Mazant Royal, LLC; Imperial Drive I, LLC; Imperial Drive II, LLC; Tchoupitoulas, LLC; Guste IIB, LLC; Fischer IV Part 3, LLC; and General Ogden, LLC.

	Non-Current	
	Notes Receivable	Accrued Interest
Abundance Square	\$ 2,160,508	\$ 494,551
Treasure Village	1,100,000	266,637
LGD	13,360,800	668,040
LGD	10,519,620	230,879
LGD II	1,489,435	11,171
Guste I	13,822,812	1,278,569
Fischer I	1,750,359	136,975
Fischer III	18,119,861	2,755,603
B.W. Cooper I	10,374,006	574,527
St. Bernard I	12,859,118	696,049
Guste IIB	1,300,000	121,843
Fischer IV Part 3	1,300,000	58,273
CJ Peete I	1,500,000	67,238
CJ Peete III	8,808,754	424,636
General Ogden	700,000	31,378
Imperial Drive I	700,000	31,378
Imperial Drive II	700,000	31,378
Mazant Royal	700,000	31,378
Tchoupitoulas	700,000	31,378
New Savoy Place Apartments	3,200,910	-
Providence Enterprise Orleans	-	-
	\$ 105,166,183	\$ 7,941,881
Allowance for doubtful accounts	(2,573,778)	
	<u>\$ 102,592,405</u>	

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2008

NOTE 8 - LAND, BUILDINGS, AND EQUIPMENT

	Balance October 1, 2007	Additions	Transfers and Deletions	Balance September 30, 2008
Land	\$ 40,853,157	\$ -	\$ -	\$ 40,853,157
Buildings	14,228,766	-	-	14,228,766
Equipment - dwelling	181,496	5,554	-	187,050
Equipment - administration	85,477	536,823	-	622,300
Construction in progress	12,366,582	-	-	12,366,582
	67,715,478	542,377	-	68,257,855
Accumulated depreciation	(1,100,510)	(669,302)	-	(1,769,812)
Total	<u>\$ 66,614,968</u>	<u>\$ (126,925)</u>	<u>\$ -</u>	<u>\$ 66,488,043</u>

NOTE 9 - ACCRUED CONTINGENT LIABILITIES AND SETTLEMENTS

Judgments, settled claims, and contingencies	\$ 22,707,732
Other noncurrent liabilities:	
Investment obligation	2,686,964
Florida IIA loss contingency	634,500
Homebuyers' reserve liability	780,458
	<u>\$ 26,809,654</u>

NOTE 10 - RISK MANAGEMENT

As stated in note 1, HANO is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets for which HANO is self-insured for general liability, workers' compensation claims, fire and extended coverage.

HANO is a defendant in various lawsuits in which a probable loss to HANO has been estimated. This estimate has been recorded in the financial statements as shown in note 9, above.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2008

HANO is also a defendant in various lawsuits related to accidents and injuries on HANO properties, for which no probability of outcome has been determined. In addition, HANO is a defendant in a class action lawsuit regarding alleged lead-based paint poisoning. No estimate of probable loss has been made in this regard.

NOTE 11 - COMPENSATED ABSENCES PAYABLE

HANO has established a policy (in accordance with State Civil Service regulations) to pay each employee his or her accrued annual leave upon termination up to a maximum of 300 hours. The cost of current leave privileges, computed in accordance with GASB codification Section C60, is recognized as a current year expense in the period in which it is earned, in accordance with generally accepted accounting principles.

At September 30, 2008, total leave to be paid upon termination is \$960,954. Of this amount, \$209,005 is deemed to be a current liability.

NOTE 12 - LONG-TERM DEBT

Pursuant to a Trust Indenture between HANO, the Industrial Development Board of the City of New Orleans, Louisiana, Inc. and J.P. Morgan Trust Company, NA dated December 1, 2003, bonds in the amount of \$49,250,000 titled "Capital Fund Program Revenue Bonds Series A of 2003" have been issued. The proceeds of the bonds were used to finance loans to fund a portion of the construction and development costs of three affiliated entities: Guste I, LLC, Florida II-A, LLC and Fischer III, LLC. The portion of the bonds related to Florida II-A, LLC were redeemed during 2007 in the amount of \$21,700,000. The managing member of each of these affiliates is Lune d'Or Enterprises, LLC, whose sole member is Crescent Affordable Housing Corporation. As discussed in note 1, HANO is the sole member of Crescent Affordable Housing Corporation.

The bonds bear interest at a rate of 4.45% and require interest payable each June 1st and December 1st. Principal payments of varying amounts are due annually beginning December 1, 2004, with a final maturity date of December 1, 2023.

HANO, with the approval of HUD, has pledged a portion of its Replacement Housing Factor funds (a component of its annual Capital Fund grants from HUD) as security for payment of principal and interest on the bonds.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2008

Aggregate annual debt service requirements for the bonds are as follows:

Year ending September 30,	Principal	Interest	Total
2009	\$ 2,035,000	\$ 837,601	\$ 2,872,601
2010	1,470,000	759,615	2,229,615
2011	865,000	707,661	1,572,661
2012	905,000	668,279	1,573,279
2013	945,000	627,116	1,572,116
2014-2018	5,390,000	2,451,950	7,841,950
2019-2023	6,710,000	1,110,498	7,820,498
2024	1,520,000	33,820	1,553,820
	<u>\$ 19,840,000</u>	<u>\$ 7,196,540</u>	<u>\$ 27,036,540</u>

NOTE 13 - DEFINED CONTRIBUTION PENSION PLAN

HANO provides pension benefits for all its full-time employees through a defined contribution plan entitled "Housing Authority of New Orleans Pension Plan". The plan is administered by the Pension Plan Committee and was revised in November 2004. The Pension Plan Committee consists of employees of HANO. As a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investments earnings. The Board of Commissioners for HANO is authorized to establish and amend plan benefits. Employees are eligible to participate after one hour of service.

HANO contributes 5% of the employee's base salary each month, while the employee contributes a mandatory ½ of 1% of his or her gross wages. HANO's contributions for each employee, and interest allocated to the employee's account, are fully vested after 3 years of service. Interest forfeited, either as a result of death or employees who leave employment prior to being vested, is apportioned among all participants in the plan year in which the forfeiture occurs.

HANO's total payroll in fiscal years 2008, 2007, and 2006 was \$11,524,425, \$10,730,043, and \$11,185,179, respectively. The contributions of HANO and employees were calculated using \$10,208,293, \$9,764,339, and \$10,821,971, respectively. HANO and the employees made contributions amounting to \$510,415 and \$52,160; \$488,217 and \$35,102; and \$513,026 and \$27,027; respectively.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2008

NOTE 14 - ECONOMIC DEPENDENCY

HANO received approximately 95% of its revenues from the federal government in the fiscal year. If the amount of revenues received from HUD falls below critical levels, HANO's operating results could be adversely affected.

NOTE 15 - CONTINGENCIES

HANO is subject to possible examinations made by Federal and State authorities who determine compliance with terms, conditions, laws and regulations governing other grants given to HANO in the current and prior years. There were no such examinations for the year ended September 30, 2008.

NOTE 16 - ANNUAL CONTRIBUTIONS CONTRACT FW-1190

Annual Contributions Contract FW-1190

Pursuant to the Annual Contributions Contract, HUD contributes an operating subsidy approved in the operating budget. Operating subsidy contributions for the year ended September 30, 2008 were \$18,027,837 for HANO managed Low-Rent Public Housing Program and \$7,186,230 for the Resident Managed Low-Rent Public Housing Program.

Annual Contributions Contracts

Housing Choice Voucher Program Annual Contributions Contracts provide for housing assistance payments to private owners of residential units on behalf of eligible low or very low-income families. The program provides for such payments with respect to existing and moderately rehabilitated housing covering the difference between the maximum rental on a dwelling unit and the amount of rent contribution by a participating family and related administrative expense.

HUD contributions for the year ended September 30, 2008 were as follows:

FW-2217 Rental Vouchers	\$ 84,307,358
-------------------------	---------------

NOTE 17 - COMMITMENTS

HANO is engaged in a modernization and development program and has entered into construction-type contracts with approximately \$57,780,000 remaining until completion.

Housing Authority of New Orleans
NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2008

NOTE 18 - RESTRICTED NET ASSETS

Restricted net assets at September 30, 2008 consisted of the following:

Unspent proceeds from City of New Orleans	
Tax Increment Financing Bonds	\$ 3,596
Public housing escrow and scholarship fund	62,703
Unspent grant from the City of New Orleans plus	
accrued interest in excess of deferred revenue	744,940
Notes receivable plus accrued interest	<u>82,841,203</u>
	<u>\$ 83,652,442</u>

NOTE 19 - PRIOR PERIOD ADJUSTMENT

The accompanying financial statements include a prior period adjustment to correct errors in the September 30, 2007 financial statements. The following is a recap of the components of the prior period adjustments.

HOPE VI grant recapture	\$ (146,861)
Utility accrual adjustments	269,430
CAHC developer fees receivable	(1,625,676)
Ownership in Florida IIA	558,217
Notes receivable not recorded in prior year	<u>7,516,092</u>
	<u>\$ 6,571,202</u>

HOPE VI grant recapture - amounts relate to amounts which had already been accrued on a HOPE VI grant that was recaptured in the current year without the expenses having been requested for repayment.

Utility accrual adjustments - amounts relate to utility accruals being incorrectly booked in the prior year.

CAHC management fees receivable - amounts for developer fees that should have been recorded as earned but were not.

Ownership in Florida IIA - change in ownership to 100% incorrectly recorded.

Housing Authority of New Orleans

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2008

Notes receivable - notes for Lafitte Development and LGD Rental I, LLC that were not recorded in the prior year.

NOTE 20 - RESTATEMENT OF FINANCIAL STATEMENTS

The September 30, 2008 financial statements have been restated from financial statements originally released July 15, 2009. The restatement results from recording additional contingent liabilities in the amount of \$378,652 related to a HANO public housing site.

NOTE 21 - SUBSEQUENT EVENTS

Subsequent to the release of the September 30, 2008 financial statements on July 15, 2009, the following events transpired:

A former CFO contractor pled guilty to embezzlement of approximately \$900,000. As of December 30, 2009 approximately \$675,000 has been recovered. Additional restitution may occur but has not been recorded to date. Allegations of embezzlement in the purchasing/procurement department has been investigated and certain individuals have been terminated.

A HUD Office of Inspector General (OIG) audit included a finding that HANO was deficient in reporting certain program spending to HUD and did not provide support for expenditures. Management is accumulating support.

Management has considered the foregoing, and has concluded that the events do not result in any adjustment to the September 30, 2008 financial statements.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
The Housing Authority of New Orleans

We have audited the basic financial statements of the Housing Authority of New Orleans (HANO) as of and for the year ended September 30, 2008, and have issued our report thereon dated July 15, 2009, which report was qualified for our inability to examine records related to the activities at one of HANO's public housing sites, as described in the third paragraph therein. Our report was modified to include a reference to other auditors. Except as discussed in the first sentence to this paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. As described in our report on HANO's financial statements, other auditors audited the financial statements of the following discretely presented component units: Guste I, LLC, Fischer I, LLC, and Fischer III, LLC. The financial statements of the aforementioned discretely presented component units were not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered HANO's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. Significant deficiencies are described in the accompanying Schedule of Findings and Questioned Costs as items 2008-3 and 2008-9.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. However, of the significant deficiencies described above we considered items 2008-3 and 2008-9 to be material weaknesses.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HANO's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, which is described in the accompanying Schedule of Findings and Questioned Costs as items 2008-1 and 2008-2.

This report is intended solely for the information and use of the Board of Commissioners, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Reznick Group, P.C.

Charlotte, North Carolina
July 15, 2009

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
The Housing Authority of New Orleans

Compliance

We have audited the compliance of the Housing Authority of New Orleans with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2008. The Housing Authority of New Orleans' major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Authority of New Orleans' management. Our responsibility is to express an opinion on Housing Authority of New Orleans' compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Authority of New Orleans' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Housing Authority of New Orleans' compliance with those requirements.

As described in items 2008-4 to 2008-9 in the accompanying Schedule of Findings and Questioned Costs, the Housing Authority of New Orleans did not comply with requirements regarding major federal programs as follows:

Major Federal Program
Low-Rent Public Housing

Compliance Requirement
Reporting
Equipment and Rental Property Management
Cash Management

Housing Choice Voucher Program -
Vouchers

Eligibility
Reporting

Capital Fund	Reporting
Hope VI	Reporting
Disaster Voucher Program	Reporting
Disaster Housing Assistance Program	Reporting

Compliance with such requirements is necessary, in our opinion, for the Housing Authority of New Orleans to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Housing Authority of New Orleans complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008.

Internal Control Over Compliance

The management of the Housing Authority of New Orleans is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Housing Authority of New Orleans's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a major program that is more than inconsequential will not be prevented or detected. Significant deficiencies are described in the accompanying schedule of findings and questioned costs as items 2008-5, 2008-7, and 2008-9.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a major program will not be prevented or detected. However, of the significant deficiencies described above, we consider items 2008-5, 2008-8, and 2008-9 to be material weaknesses.



Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Commissioners, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Reznick Group, P.C.

Charlotte, North Carolina
July 15, 2009

Housing Authority of New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

September 30, 2008

Summary of Auditors' Results

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the Housing Authority of New Orleans.
2. Significant deficiencies and material weaknesses were identified during the audit of the basic financial statements.
3. Instances of noncompliance material to the basic financial statements of the Housing Authority of New Orleans were disclosed during the audit.
4. Significant deficiencies and material weaknesses were identified during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the Housing Authority of New Orleans expresses a qualified opinion.
6. Audit findings relative to the major federal award programs for the Housing Authority of New Orleans are reported in this schedule.
7. The programs tested as major programs include:
 - CFDA #14.850 Low-Rent Public Housing
 - CFDA #14.872 Capital Fund Program
 - CFDA #14.866 Hope VI
 - CFDA #14.871 HCVP - Voucher
 - CFDA #14.DVP Disaster Voucher Program
 - CFDA #97.049 Disaster Housing Assistance Program
8. The threshold for distinguishing Type A and B programs was \$3,000,000.
9. The Housing Authority of New Orleans did not qualify as a low-risk auditee.

Housing Authority of New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2008

Findings - Financial Statements Audit

2008 - 1 Audit Engagement Completion

Type of finding: Compliance

Condition: Required annual audited financial statement filing with the Louisiana Legislative Auditor was not made by the required filing deadlines. The deadline for filing with the Louisiana Legislative Auditor is six months after the close of the fiscal year-end (March 31, 2009).

Cause: HANO's staff and its external contractor have struggled since Hurricane Katrina to develop accurate accounting records from which reliable and complete financial reports could be readily prepared. Delays in completing the 2007 audit lead to delays in beginning the process of closing out and preparing for the 2008 audit. Progress has been made in completing the audit earlier than in the prior year.

Criteria: The Authority is required by the Louisiana Legislative Auditor to file by required deadlines.

Auditors' Recommendation: We recommend that HANO take steps to insure that its records are in a condition which allows an audit to be completed by the filing deadlines.

Management's Response: HANO is aware of the financial deadlines by the Louisiana Legislative Auditor's office, however, there are a number of factors that are at play with the delay. Of significance is the financial software package utilized by the HANO. The system is a DOS based system which has never been upgraded to keep up with technology. Hence, most of the controls incorporated a significant amount of manual processing which in turn required a greater number of signatures and approvals which in turn contributed to delays in closing the ledgers and the completion of the audit. The HANO is in the process of converting to a system that will allow for timely submissions and anticipates that the 2009 audit will be submitted timely.

Housing Authority of New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2008

The Finance Department of HANO is continually working to meet not only the Louisiana Legislative Auditor's Office, but also several other federal agencies which is why we have the following remedial steps taken moving forward to that direction:

1.) HANO has not had any Chief Financial Officer for the last three years. That function was contracted out. The agency has just recently hired a CFO last March 2009 to man its Finance Division.

2.) Relative to the hiring of a CFO, the Finance Department is building a new Finance Team and is currently hiring five (5) positions to beef up the department. There will be a new Accounting Manager, a Section 8 Accountant, a Finance Manager, a Payroll Coordinator and a new Internal Auditor.

3.) The Agency is currently implementing a new infrastructure to address the issue of the legacy systems as well as moving towards HUD's new Asset Management model with the new asset management software called Yardi which will give Finance the ability to create and manage reports more effectively as compared to the legacy software. We expect that the move will contribute significantly in improving reporting within the Finance Department.

2008 - 2 Underfunded Self-Insurance Fund

Type of finding: Compliance

Condition: HANO has been unable to fund its self-insurance fund in accordance with state law requirements. This matter relates to findings 2007-4, 2006-5, and 2005-5, which remain unresolved as of year-end.

Cause: The Authority experienced funding shortfalls during the fiscal year and expects to realize significant losses associated with the shortfalls in coverage and unfunded reserves as a result of Hurricane Katrina.

Criteria: The Authority is required to fund self-insurance in accordance with state law requirements, which state that a liability for unpaid claims costs, including estimates of costs related to incurred but not reported claims should be accrued when insured events occur.

Auditor's Recommendation: The Authority should fund the self-insurance to at least the minimum required by the state annually, and the calculated liability by Marsh.

Housing Authority of New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2008

Management's Response: HANO does not agree with the finding. HANO has evaluated all of its current financial resources and determined that funds are not currently available for the funding of the reserve. HANO legal is working with Finance to propose an offer and compromise to address the outstanding liabilities. Once an amount is calculated, HANO will work to identify available and eligible resources and make every effort to fully fund the offer and compromise to address these outstanding liabilities. Once an amount is calculated, HANO will work to identify available and eligible resources and make every effort to fully fund the offer and compromise. At such time, a reserve will be funded to cover the costs associated with the offer and compromise.

2008-3 Bank Reconciliation Issues

Type of finding: Internal control - significant deficiency - material weakness

Condition: Upon review of several bank reconciliations, it was noted that there were outstanding checks dating back as far as 2003 that have never been voided or written off. Additionally, the reconciliations include several reconciling items related to necessary transfers to and from other cash accounts that have never been made.

Cause: Outstanding checks have not been written off or voided in over 5 years; intercompany transfers are not made when necessary.

Criteria: Because of these issues, several bank account book balances are showing up as negative when there is actually significant amounts of cash on hand and available. This is causing HANO to not know how much cash it has access to.

Auditor's Recommendation: We recommend that HANO make all required bank transfers timely and that outstanding checks are written off of the books or sent to escheats once they have been outstanding for more than 6 months because the banks will no longer cash checks that are more than 6 months old.

Management's Response: Beginning March 2009, the new CFO instituted a new Daily Cash Reporting system to monitor wire transfers between HANO banks and/or outside vendors. Given the lack of Finance staff, it was the conscious decision of the CFO to leave outstanding checks in the books until they are fully investigated and/or until such time that the CFO is comfortable about the nature of these outstanding items. Please also note that a significant portion of the outstanding amount represents checks that were issued within sixty days of September 30, 2008. These amounts are being managed by HANO and HANO does have a good handle on what is its true cash position.

Housing Authority of New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2008

Findings and Questioned Costs - Major Federal Awards Programs Audit

CFDA # 14.871 Housing Choice Voucher Program - Vouchers
14.DVP Disaster Voucher Program

2008 - 4 Voucher Client Files

Type of Finding: - Compliance - Eligibility

Condition: Of the 60-voucher client files tested, the following deficiencies were noted:

- 10 of the files were missing inspections
- 2 of the files contained errors on the HUD form 50058, Family Reports
- 5 files were not converted from DVP to Vouchers in a timely manner
- 2 were missing proper supporting documentation for income certifications

Cause: HANO has not adequately monitored its housing choice voucher program to ensure that income certifications and inspections were performed timely and that all forms and required documentation are properly obtained and retained in files and that DVP tenants were converted timely.

Criteria: HANO is required by HUD to provide sufficient documentation that individuals receiving benefits under the Housing Choice Voucher program and the Disaster Voucher Program are eligible under the program rules. HANO is also required to perform annual inspection of units rented under the Housing Choice Voucher program and the Disaster Voucher Program to ensure that they provide decent, safe and sanitary housing for program participants. HANO was required by HUD to convert all DVP tenants to Vouchers starting January 1, 2008.

Auditor's Recommendation: We recommend that HANO establish procedures to ensure that documents are retained and that inspections are performed.

Management's Response: *HANO has developed and implemented processes to ensure that the current inspections Contractor receives an Annual Inspections database every two (2) months to ensure each unit under contract is inspected annually. During the 2009 calendar year, the Housing Authority of New Orleans' in-house Inspectors will schedule 10 percent of the total lease up number for Quality Control inspections. Moving forward, HANO Inspectors will have a total of 30 units to inspect monthly. As the lease-up figures continue to increase, the number of Quality Control inspections will increase to a minimum of 10%.*

Housing Authority of New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2008

The Agency's focus has been to conduct an annual re-certification for every program participant, annual inspections for every contracted unit, accurate PIC reporting, and timely financial submissions through VMS - all by December 31, 2008, as mandated by HUD. While we have focused on the above referenced mandates, plans and staffing adjustments have been made to begin the 2009 calendar year in full compliance with all Federal HCVP program requirements. This planning process has led to numerous changes, includes but not limited to, staffing and training an internal quality assurance team, converted to a more effective software system, establishing a Customer Relations Department, use of new rent reasonableness system, procurement of an ongoing staff training contract, purchasing a new file system, complete file format conversion, hiring additional staff, and a renewed focus on providing quality customer service.

2008-5 Section 8 Portability Records

Type of finding: Internal control - significant deficiency - material weakness

Condition: HANO has a large receivable amount on the books at year-end related to Section 8 portability. However, HANO was unable to provide a listing of which entities owed the money or how much each entity owed at year-end. Additionally, it appears billings were not being sent monthly.

Cause: HANO has not adequately managed the portability of Section 8 vouchers. HANO's current accounting software cannot generate a receivable aging schedule for Section 8 ports, and one has not been created manually. It was not possible to test the accuracy of what information HANO did maintain for the portable vouchers.

Criteria: At any given time, HANO should be aware of how much is due from other entities for portability. HANO should be able to generate a list, or manually maintain a list of totals by entity to ensure that the correct amounts are recorded. Additionally, billings should be sent monthly to the entities that currently owe money, and every possible effort should be made to collect the receivables.

Auditor's Recommendation: If the new software is incapable of generating a schedule by entity of the portability receivables, we recommend that HANO manually maintain a listing by entity of what is owed to it. We also recommend that bills are sent to the entities each month and efforts are made to collect all receivables timely.

Management's Response: HANO does not agree that portability payments are being improperly managed. Portability accounting is very important because of regulatory

Housing Authority of New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2008

requirements established by HUD. The Visual Homes system does not provide a summary schedule by period for the port in receivables but instead provides a cumulative report. We acknowledge this problem with Visual Homes and have been maintaining portability data manually as tracked against the detail reports generated by Visual Homes. This has been a cumbersome process that is being addressed with the Yardi conversion. Yardi has a module that is part of the Section 8 management software that provides summary schedules for port in and port out transactions. This report will be used to manage and maintain all portability data.

Total questioned costs for CFDA #14.871 Housing Choice

Voucher Program - Vouchers \$ 0

CFDA # 14.850 Low-Rent Public Housing - Operating Subsidy

2008 - 6 Accounting for the Activities of the Resident Management Corporations

Type of Finding: - Compliance - Cash Management

Condition: The Authority has two developments under Resident Management Corporation (RMC) agreements that are also under separate Operating Fund Formulas. HANO provides contract administration and oversight to the RMCs as owner of the properties. In doing so, the Authority provides monthly subsidy allocations to the Guste and Cooper RMCs. To record these advances in the appropriate sub-ledger for the respective RMC, the Authority debits an account titled Undistributed Expenses. When the RMC provides an accounting of its expenditures, the undistributed account is supposed to be cleared out and the appropriate accounts (generally expense accounts) are debited. In the current year this account was not cleared out and expenses were not recorded appropriately. This accounting entails an annual reconciliation between each RMC's trial balance and the records of the Authority. Supporting documentation and required annual audits are not provided in a timely manner in accordance with the terms of the contracts with the RMCs; a B.W. Cooper RMC audit was received in 2008. This matter relates to finding 2007-7, 2006-7, and 2005-7.

In addition to not providing proper supervision, both of the RMC agreements are currently out of date and HANO continues to provide support with expired agreements.

Cause: HANO does not provide adequate oversight to the RMCs.

Housing Authority of New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2008

Criteria: HANO should have procedures to ensure that the funds spent by the RMCs are sufficiently monitored so that HUD funds are being spent and accounted for in accordance with HUD regulations. HANO also is required to have current agreements with the RMCs.

Auditor's Recommendation: We recommend that the Authority enforce the terms of the contracts with the RMCs, which will result in a complete accounting for and monitoring of each RMCs activities. We also recommend that HANO draft new agreements for both RMCs and get both entities to sign and agree.

Management's Response: HANO does not agree with the assertion that proper oversight is not provided to RMC's. In fact, HANO has been tracking subsidy funding and rent collection for the RMC managed properties. This reconciliation has been maintained as part of the review process implemented to ensure that payments are made within the available funding for the individual sites. The existing contracts were reviewed and payments were made in accordance with the terms outlines within those contracts. HANO management has been working with the RMC to revise existing terms and establish better management controls over payments made by HANO. Subsequent to year-end, a contract has been entered into between HANO and the BW Cooper RMC. HANO is still negotiating with the Guste RMC and expects to have a new contract in place shortly. These new contracts establish strict controls over how payments and what payments will be made to the RMC's for the management of HANO properties.

2008 - 7 Inventory of Fixed Assets

Type of finding: - Internal control - significant deficiency - material weakness
- Compliance - Equipment and Real Property Management

Condition: HANO was unable to produce a listing of all current equipment, furniture, land and buildings as of September 30, 2008. Several schedules were provided with account totals which have been carried forward from earlier years. HANO failed to perform a physical inventory of its fixed assets at least once every two years as required by HUD regulations. This matter relates to findings 2007-8, 2006-8, 2005-8, 2004-6, and 2003-9, which remain unresolved as of year-end.

Cause: HANO does not have procedures in place to perform a fixed asset inventory or provide a detail listing of total fixed assets.

Criteria: Regulations require that HANO perform an inventory of fixed assets at least every two years.

Housing Authority of New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2008

Auditors' Recommendation: A physical inventory of HANO's fixed assets should be taken, and that inventory should be reconciled to the accounting records.

Management's Response: HANO has performed comprehensive inventories of its major capital assets (Land and Buildings). New purchases or development activities have been accounted for during acquisition and/or development.

HANO is in the process of procuring services for the performance of a comprehensive inventory of all of its capital assets. This inventory will be used to develop Agency wide capital assets ledgers and all such amounts will be reconciled to HANO's general ledger. All equipment will be properly tagged and logged for inventory management purposes.

Policies and procedures on capital assets (acquisition, capitalization, and disposition) and depreciation will be reviewed and changes made where deemed necessary. All policies will be developed in written form and submitted for approval by the HANO Board.

2008-8 Asset Management Accounting

Type of finding: Compliance - Reporting

Condition: HANO did not report on the asset management basis of accounting for the year ended September 30, 2008.

Cause: HANO's current accounting system could not handle this change properly; additionally, because of other issues, there was not enough time to plan for this change.

Criteria: Project-based accounting is required for FDS submissions for years ending after June 30, 2008.

Auditor's Recommendation: We recommend that HANO comply with these new reporting standards for the year ending September 30, 2009. Once the new accounting system is implemented, it should be able to adequately report on a project basis. However, before that time, HANO should be doing preparatory work so that there is a seamless change in the financial reporting for public housing projects.

Management's Response: As of September 30, 2009, HANO has implemented a project based budget model. The challenges faced by HANO continue to revolve around the existing reporting systems. Because of system limitations and the fact that the version maintained by HANO is no longer supported by CCS, HANO has been focusing its efforts on building a model around the new Yardi system. The design of this new system breaks down accounting

Housing Authority of New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2008

and reporting functions to the individual department within the COCC as well the AMP level from HANO's portfolio. This system also integrates the compliance elements of the Section 8 and Public Housing programs which allow HANO to better manage related transactions.

HANO has been working diligently to implement a full asset management model. The transition issues associated with the rebuilding of its conventional sites into the mixed income model as well as staffing related operational decisions have been made and continue to progress as the operations of HANO have dramatically shifted.

With the implementation of Yardi on October 1, 2009, HANO will have a fully developed system that tracks and reports its operations under the Asset Management Model.

Total questioned costs for CFDA #14.850 Low-Rent

Public Housing - Operating Subsidy

\$ 0

All Major Programs

CFDA # 14.850 Low-Rent Public Housing - Operating Subsidy
CFDA # 14.872 Capital Fund Program
CFDA # 14.871 Housing Choice Voucher Program - Vouchers
CFDA # 14.DVP Disaster Voucher Program
Tenant Protection Vouchers
CFDA # 14.866 HOPE VI
CFDA # 97.049 Disaster Housing Assistance Program

Housing Authority of New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2008

2007 - 9 Controls over Financial Reporting

Type of finding: - Internal control - significant deficiency - material weakness
- Compliance - Reporting
(Also, Financial Statement Audit Finding - Internal Control - significant deficiency - material weakness)

Condition: During the course of the audit, the auditor noted several instances of poor controls over financial reporting. Among the items noted:

- There were numerous journal entries that were posted that should not have been recorded and were erroneous; auditor noted there was no approval of these.
- There were entries that were not booked in 2008 that should have been.
- Several trial balances for HANO programs and funds were kept in QuickBooks instead of CCS software during the year. The initial FDS provided for the Auditors did not include any of the QuickBooks information, and these trial balances were not provided to the Auditors until they were specifically asked about.
- HANO could not provide a detailed listing of accounts payable.
- Bank reconciliations contained reconciling items that needed to be recorded but were not.
- Bank reconciliations were not timely prepared and were not reviewed by an appropriate member of management.
- Homeownership reserve payouts were paid from the general fund and expensed rather than paid from the homeownership reserve and debited to the related liability.
- Several funds had accounts payable recorded that were related to bank transfers owed to other funds. The other funds did not have corresponding accounts receivable, and in most cases, the money had already been transferred but the liability was never written off.
- The activity related to component unit accounts receivable was more often than not recorded incorrectly on HANO's books.
- Auditor noted several instances of construction contract retention amounts not being properly accrued when incurred.

Housing Authority of New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2008

- The initial FDS had operating transfers out that did not equal the operating transfers in.
- The initial FDS and the client trial balance had interfund accounts that did not balance.
- Rent rolls and security deposit listings provided by HANO were unreliable and inaccurate. The HANO employees are aware of this and said that the new software will correct this issue in 2009.
- HANO could not provide a detailed tenant accounts receivable aging schedule; as a result, old outstanding tenant receivables have not been written off since 2004.
- There was no accounting recognition for about \$13,000,000 in utility liabilities.
- Payroll accounts were being kept on the cash basis for a majority of the year; neither payroll accrual nor compensated absence activity was recorded during the year.
- Auditor noted a large amount of payroll related expenses that were being debited to liability accounts and never being credited to the liability account or hitting the proper expense lines. Additionally, we noted several credits made to the payroll liability accounts that were not debited out when paid.

Cause: The primary contributors to the errors is that the work of individuals responsible for performing the accounting and financial recordkeeping is not being monitored or reviewed to the extent necessary to prevent or detect the errors in the accounting records.

Criteria: To be properly managed, accurate and timely accounting records are required to be maintained. Additionally, each major federal awards program requires that internal controls be established to ensure compliance with the program requirements, one of which is that accurate financial and other reports can be prepared.

Auditor's recommendation: Procedures should be established to:

- Review and approve journal entries prior to their posting to the accounting records.
- Ensure that all appropriate adjustments are posted prior to closing the books for the year, and to ensure that no additional adjustments are posted without proper approval.

Housing Authority of New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2008

- Begin a process of validating all balance sheet account balances, including, but not limited to, accounts payable, tenant security deposits, homeownership liabilities, accrued expenses, prepaid assets, tenant receivables, utility liabilities, etc.
- Prepare bank reconciliations in the following month, and document a supervisor's review of the reconciliations and post all required adjustments.
- Periodically (monthly or quarterly), reconcile the activity related to component units to the accounting records of the component units.
- Move all HANO entity trial balances onto the same software.
- Ensure that the rent rolls and security deposit listings loaded onto the new software is accurate.
- Review the accounting for the Homeownership program to ensure that it is being recorded correctly.

Housing Authority of New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2008

- *Management's Response: HANO has begun the process of transforming the Finance Department in order to address many long-standing deficiencies. It is important to note that because HANO has been in a catch up mode since the Hurricane in addition to working with old legacy systems, many findings have carried forward from prior years.*

Accordingly, we noted the following:

- *Based on our review of the entries not posted from prior years, the bulk of these entries relate to interfund transactions. We have been tracking these entries and have been working to find solutions to being able to post these entries. The difficulty lies in the way that CCS was set up. In working to post these entries, the CCS system automatically creates an offsetting entry that in turn creates additional problems and errors in the general ledger. We have been consistently trying to work through this issue with CCS and have not been able to work out a resolution. We could only track these amounts and carry them forward every year. We have gone over this matter in detail with Yardi and believe that we have worked out a resolution to prevent this from occurring in the new system.*
- *HANO finance was not focused on payroll accruals or compensated absences accruals during the year because the amounts did not materially impact the month end ledgers. The only significant transactions that would have impacted payroll were associated with the staffing reduction plan which occurred during the year and resulted in significant one-time payments. On workman's' compensation HANO is on a pay as you go system therefore accruals would not be of material significance. As part of the audit, all accruals were provided therefore the audited financial statements should reflect proper balances of September 30, 2008.*
- *HANO was able to provide a manual accounts payable report for known outstanding claims. That was provided as part of the list documents requested by the Auditor.*
- *Because of the number of bank accounts maintained by HANO, and the lack of automated process available from CCS, bank reconciliations generally take a longer amount of time to complete. All entries during the year were posted with the exception of entries that impacted the intercompany accounts. As referenced above, the continuing problems created by these intercompany accounts within CCS required Finance staff to pull those entries and work on them independently. All these items were properly tracked. For the accounts maintained in QuickBooks, all bank reconciliations were completed monthly and entries posted accordingly. Review procedures have been implemented and cash management procedures have been revised to address the number of accounts maintained by HANO.*

Housing Authority of New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2008

- *Homeownership reserve payments were being made as part of a settlement agreement with the related homeowners. We could only identify two payments that were made from the general fund however as a result of HANO's internal review process that were caught and corrected and all other payments came out of the appropriate funds. The two payments have been reimbursed to the general fund accordingly. The amounts were being recorded because the original intent of the escrow was to cover costs associated with the maintenance of the units. After discussions with the auditor, we agreed to reclassify and charge those amounts directly against the escrow reserve.*
- *As stated before, we have had serious issues with the interfund accounts within CCS. This issue will be cleared with the implementation of the Yardi system.*
- *The recording of the component unit activity within the CCS ledger continues to be a training issue. Throughout the year the HANO Finance Contractor had two individuals that would meet with the Grants Manager and General Ledger Accountant and provide hands on training and support over the recording of mixed finance transactions. Additionally, there were instances where information was provided from Modernization and Development to Grants Management that should have been processed through the Mixed Finance Accountant. Because certain vendors were being used for modernization as well as development projects, these errors were picked up as a result of reconciliations performed of development activity. Not all transactions were identified and cleared up as of year-end. On QuickBooks however, all of the amounts related to mixed finance transactions were picked up and properly accounted for. Yardi will cure this issue since it will integrate all accounting for mixed finance transactions into one system. This will force the person recording the transaction to record the offsetting entry within the HANO ledger. This process will allow portfolio reports to be run that can be used to monitor and verify these transactions rather than the manual process that must be followed currently.*
- *The grants management accountant prepared the appropriate entry to record the retention liability. However, in the process of closing the September 30, 2008 ledgers and establishing a cutoff from posting any additional activity outside of the audit, the adjusting entry was excluded.*
- *The initial FDS was run against the ledgers which clearly picked up the errors in the interfund accounts. HANO Finance performed a reconciliation of each account and identified and addressed variances. This report was provided to the auditors in support of their work.*

Housing Authority of New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2008

The Following Addresses auditor recommendations:

- *For fiscal year ended September 30, 2009, all journal entries are being reviewed prior to posting in the general ledger.*
- *Upon approval, the CFO is ensuring that all journal entries are being posted. The Yardi system will also have built in controls that will allow for reports to be run validating the posting of journal entries.*
- *HANO Finance is undertaking a comprehensive validation process of all of its general ledger balance sheet accounts. This is being performed in line with the implementation of Yardi. This will help ensure that only accounts with current valid data are carried forward into the new system which is scheduled to go live on October 1, 2009.*
- *With the manual processes required to be performed for the bank reconciliation process, timeliness will continue to be an issue. Yardi will provide a much higher degree of automation and we have already begun the set up of individual bank accounts and relationships within the system that will provide a much more user friendly process for the performance of the monthly reconciliations. This is expected to improve the process as well the timeliness of the completion.*
- *By integrating the HANO portfolio into one database, HANO will be able to run real time reports that will allow for better financial management and analysis. This will help in reconciling interfund activity and ensuring that all associated transactions have been properly accounted for.*
- *As part of the implementation of Yardi, Finance is working closely with Public Housing to ensure that all data that impacts financial operations is reviewed and corrected where applicable. This is more critical in Yardi because controls exist in Yardi that did not exist in Visual Homes. In line with the implementation of Yardi over the Section 8 program management function, all tenant data was manually scrubbed and validated. This helped clear long standing data issues and HANO anticipates that the same will occur as Yardi is implemented for Public Housing. The data clean up is planned for the month of July/August of 2009 in order to allow for the system to be populated and tested prior to go live on October 1, 2009.*
- *Steps have already been taken to ensure that the Homeownership activity is properly accounted for and reported.*

Housing Authority of New Orleans

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

September 30, 2008

HANO is also implementing the following in order to address these issues and prevent similar findings from reoccurring:

- *HANO has been aggressively advertising to hire permanent Finance positions. With HANO staff in place to oversee day-to-day operations, HANO staff can be trained in accordance with existing policies and procedures and greater control can be taken over the management of the department.*
- *Yardi is scheduled to go live on October 1, 2009. What this will do is bring all of HANO's operations under one system. This will integrate HANO's financial and programmatic operations and allow for better controls and management of all areas within the Agency. The Yardi system has built in internal controls and audit features that will greatly improve HANO's ability to manage itself and take controls of its finances.*
- *In line with the Yardi implementation, HANO is working on revising its policies and procedures. These new policies will be in line with the control features built into Yardi.*
- *By having more permanent positions filled with HANO staff, it is HANO's position that the Finance Department will be able to improve on its review and approval procedures over bank reconciliations, accounts payable ledgers, interprogram/interfund transactions, monthly and annual reporting, etc.*
- *HANO is committed to improving all areas of its financial operations and HANO believes that it has taken the steps to move in that direction. HANO has been under a recovery phase for the last four years and is now moving into an implementation stage where controls will be placed in operation to cure many long-standing issues. With the direction of its CFO, HANO is working towards and expects to make vast improvements in applying corrective measures by the end of its 2010 fiscal year.*

Housing Authority of New Orleans

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

September 30, 2008

Ref.	Fiscal Year Initially No. Occurred	Description of Finding	Corrective Action Taken	Planned Corrective Action or Partial Corrective Action Taken or Status
Section I - Internal Control and Compliance Material to the Financial Statements				
1	2007	PROCESSING OF VENDOR INVOICES	YES	The auditor considers this finding closed
2	2006	Many disbursements tested lacked		
2	2005	documentation of approval and		
2	2004	verification/recalculations.		
3	2003			
4	2002			
2	2007	AUDIT COMPLETION	NO	Management agrees that Katrina impacted
3	2006	Required annual audited financial		the 2006 audit and therefore impacted the
3	2005	statement filings with HUD's REAC and		timing of the 2007 audit. HANO is in the
3	2004	the Louisiana Legislative Auditor were not		process of implementing systems and
		made by the required filing deadlines.		procedures to ensure timely submissions.
3	2007	UNSECURED CHECK STOCK	YES	The auditor considers this finding closed.
4	2006	The room where the blank check stock is		
4	2005	kept is left unlocked and unattended.		
4	2007	UNDERFUNDED SELF INSURANCE	NO	Management considers its lack of reserves
		FUND		a serious matter and is working diligently
5	2006	The self insurance fund has not been		to find solutions. They have begun to
5	2005	funded in accordance with state		assess risk management policies and are
		requirements. In additions, there has been		procuring a risk management company to
		no analysis done to identify incurred by		support those efforts.
		not reported claims, and no liability has		
		been established for the potential claims.		

(continued)

Housing Authority of New Orleans

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - CONTINUED

September 30, 2008

Ref.	Fiscal Year Finding Initially No. Occurred	Description of Finding	Corrective Action Taken	Planned Corrective Action or Partial Corrective Action Taken or Status
Section I - Internal Control and Compliance Material to the Financial Statements - Continued				
4	2004	ACCOUNTING RECORDS AND INTERNAL ACCOUNTING CONTROLS The condition of HANO's accounting records did not allow HANO to produce a trial balance or file an unaudited Financial Data Schedule submission that did not require numerous and material adjustments to report the correct information.	NO	The destruction of records caused by Hurricane Katrina added to the challenge of addressing this finding on a timely basis. However, HANO's consultants have reorganized functions and introduced procedures into the Finance Department that should address this condition for the year ended September 2007.
Section II - Internal Control and Compliance Material to Federal Awards				
5 6 6	2007 2006 2005	VOUCHER CLIENT FILES Required documentation was missing from several of the files selected for testing.	NO	Management is developing a comprehensive plan to protect against disastrous losses and to facilitate recovery where necessary.
6 7 5 8 10	2007 2006 2004 2003 2002	TENANT LEASE FILE ERRORS Required documentation was missing from several of the files selected for testing.	YES	Management is developing a comprehensive plan to protect against disastrous losses and to facilitate recovery where necessary.
7 8 7	2007 2006 2005	ACCOUNTING FOR THE ACTIVITIES OF THE RESIDENT MANAGEMENT CORPORATIONS HANO does not provide oversight to the Resident Management Corporations.	NO	Management is committed to ensuring that the responsibilities of the parties are executed in accordance with the contracts and will reconcile the cash accounts on a quarterly basis.

(continued)

Housing Authority of New Orleans

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS - CONTINUED

September 30, 2008

Ref.	Fiscal Year Finding Initially No. Occurred	Description of Finding	Corrective Action Taken	Planned Corrective Action or Partial Corrective Action Taken or Status
Section II - Internal Control and Compliance Material to Federal Awards - Continued				
8	2007	INVENTORY OF FIXED ASSETS	NO	Management concurs with this finding.
9	2006	Fixed asset schedules were not in detail,		HANO intends to engage the services of
8	2005	and a physical inventory of fixed assets has		an outside vendor to conduct the physical
6	2004	not been conducted at least once every two		inventory.
9	2003	years.		
11	2002			
9	2007	CONTROLS OVER FINANCIAL	NO	Management agrees with this
10	2006	REPORTING		recommendation and has since developed
		During the course of the audit, several		procedures exist for executing all the
		instances of poor controls over journal		functions noted above. However, as far as
		entries, general ledger closing, accounts		the period under review is concerned, the
		payable reporting, bank reconciliations,		level of execution was subject to a variety
		component unit receivable, tenant accounts		of circumstances:
		receivable, and payroll accounts were		1. Destruction / misplacement of records
		noted. Rent rolls provided were generally		by Hurricane Karina.
		inaccurate, and construction contract		2. Inadequate systems for the recovery of
		retention amounts were not properly		documentation that was affected by
		accrued when incurred. Additionally,		Katrina
		there was a general disorganization of		3. A 40% staff reduction since Hurricane
		documents and support and several		reduction.
		invoices that could not be located.		
				Management expects that the
				implementation of the procedures that now
				exist will eliminate these deficiencies.

(continued)

SUPPLEMENTAL INFORMATION

September 30, 2008

- 69 -

FINANCIAL DATA SCHEDULE - CONTINUED

September 30, 2008

Line Item #	Account Description	Long Term Public Housing	Self-Help Homeownership Opportunity Program	PEMA	HQ(PV)	Capital Fund Program	Section 8 Youthful	Section 8 New Construction	Section 8 Moderate Rehabilitation	KDI/AP	DVP 14 DVP	TPV	Business Activities	State and Local	DHAP 97 069	Component Fund	TOTAL
LIABILITIES AND NET ASSETS																	
CURRENT LIABILITIES																	
312	Accounts Payable - <= 90 Days	\$ 130,672	\$ -	\$ 1,679	\$ -	\$ 566,974											\$ 3,366,464
	Accrued Wages/Payroll Taxes Payable	794,856				105,302											980,158
	Accrued Compensated Absences - Current Person	171,681				15,322											209,005
324	Accrued Compensated Absences - Current Person	2,253,133															2,871,633
341	Internal Security Deposits	140,820															35,787
342	Deferred Revenues	4,186,809															2,015,000
343	Current Portion of Long-Term Debt - Capital Projects					744,786											7,285
345	Other Current Liabilities	203,296		2,012		1,323											6,103,089
346	Other Current Liabilities - Other	1,509,447		645		663,030											748,728
347	Interfund Due To	101,123,566		9,46,152		111,930,839		41,082									1,691,912
310	TOTAL CURRENT LIABILITIES	111,670,311	209,398	8,814,145	4,336	11,008,145	112,670,449	41,082	(8,127)					3,383,703	20,644,563		231,425,633
NONCURRENT LIABILITIES																	
351	Long-Term Debt, Net of Current - Capital Projects																154,474,298
353	Accrued Compensated Absences - Non-Current	624,870				127,079											751,949
353	Noncurrent Liabilities - Other	20,470,599				786,458											23,938,021
360	TOTAL NONCURRENT LIABILITIES	21,095,469	786,458			913,537	(22,079)										179,164,166
300	TOTAL LIABILITIES	132,765,781	1,095,856	8,814,145	4,336	11,908,145	112,670,449	41,082	(8,127)					3,483,703	20,644,563		466,344,346
NET ASSETS																	
506	Invested in Capital Assets, Net of Related Debt	45,201,540			9,561,180	441,975								10,791,849	252,155		66,488,043
511	Restricted Net Assets	71,533,586			9,398,011	1,973,935											83,652,442
512	Unrestricted Net Assets	67,095,401	1,257,840	2,405,212	1,272,415	1,405,289	95,340,783	(41,082)	114,104	(460,047)	14,189,161	24,337,755	9,193,582	(275,554)	(837,567)	(5,968,837)	313,259,033
513	TOTAL NET ASSETS	184,712,497	1,894,174	2,405,212	20,231,606	5,824,199	95,340,783	(41,082)	114,104	(460,047)	14,189,161	24,337,755	9,193,582	(11,261,215)	(1,865,126)	(5,968,837)	365,409,524
600	TOTAL LIABILITIES AND NET ASSETS	\$ 117,498,278	\$ 1,894,040	\$ 11,249,357	\$ 20,235,542	\$ 16,832,344	\$ 208,011,232	\$ -	\$ 116,177	\$ 460,047	\$ 14,189,161	\$ 24,337,755	\$ 29,363,473	\$ 14,744,938	\$ 20,059,045	\$ 1,460,072,085	\$ 979,753,870

Year ended September 30, 2008

[illegible]

Housing Authority of New Orleans

FINANCIAL DATA SCHEDULE - CONTINUED

Year ended September 30, 2008

		(Revised)										(Revised)				
Line Item #	Account Description	Self-Help Homeownership Program	FFMA	HOPE VI	Capital Fund Program	Section 8 Voucher	Section 8 New Construction	Section 8 Moderate Rehabilitation	NDJAF	DVP	JV	Emergency Activities	State and Local	Disaster	Component	Total
Protective Services																
951	Protective Services - Labor	651,001	-	-	-	-	-	-	-	-	-	-	-	-	-	651,001
952	Protective Services - Other Contract Costs	1,746,066	-	-	-	-	-	-	-	-	-	-	-	-	-	1,746,066
953	Protective Services - Other	9,221	-	-	-	-	-	-	-	-	-	-	-	-	61,461	70,682
		1,566,293	-	-	-	-	-	-	-	-	-	-	-	-	61,461	2,037,759
General Expenses																
961	Insurance Premiums	3,576,427	-	-	-	-	-	-	-	-	-	-	-	-	364,385	3,940,812
962	Other General Expenses	313,150	-	-	-	5,776	-	-	-	-	-	-	-	2,575	106,608	428,109
964	Bad Debt - Tenant Rents	230,856	-	-	-	330,686	-	-	-	-	-	925,823	-	-	3,672,780	4,339,295
967	Interest Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	3,596,633	3,596,633
		3,920,433	-	-	-	336,462	-	-	-	-	-	925,823	-	2,575	3,083,773	8,269,856
TOTAL OPERATING EXPENSES																
969		35,832,011	-	-	6,672,922	2,770,933	-	-	1,120	24,604	-	931,823	22,264	10,538,235	3,999,819	61,954,634
970		(2,259,823)	-	-	39,798,216	83,263,144	-	115,798	(1,120)	28,550,074	24,337,755	825,629	66,162	47,013,567	(1,891,342)	232,327,394
EXCESS OPERATING REVENUE OVER OPERATING EXPENSES																
Other Expenses																
971	Excavation Maintenance	497,178	-	-	18,572,675	37,760	-	-	-	-	-	-	-	-	-	20,884,195
973	Housing Assistance Payments	662,254	-	-	52,447,828	52,447,828	-	-	-	25,610,949	-	-	-	52,163,289	1,444,736	139,042,066
974	Depreciation Expense	3,029,432	-	-	18,122,673	52,285,588	-	-	-	25,610,949	-	-	-	59,227,364	1,444,736	2,113,078
		36,931,443	-	-	35,195,597	53,096,341	-	-	1,120	25,633,533	-	931,823	22,264	62,783,199	3,444,555	214,696,933
TOTAL EXPENSES																
Other Financing Sources (Uses)																
1001	Operating Transfers In	124,803,244	-	-	-	64,471,728	-	-	-	-	-	2,863,823	-	-	1,216,037	197,307,682
1002	Operating Transfers Out	(15,138,129)	-	-	(21,192,342)	(11,322,478)	-	-	-	-	-	-	-	-	-	(48,653,653)
EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSE																
1000		\$ 89,207,000	\$ -	\$ (5,067)	\$ 1,918,641	\$ 1,864,919	\$ 83,199	\$ -	\$ 115,798	\$ (1,120)	\$ (3,319,125)	\$ 34,337,755	\$ 66,162	\$ (4,311,197)	\$ (3,276,078)	\$ 79,483,046
Major Account Information																
1103	Beginning Equity Available	97,285,936	-	-	-	133,341,973	-	18,506	461,167	10,870,056	-	5,504,350	11,195,077	3,727,889	(893,364)	277,092,167
1104	Plus/Minus Additions	7,618,664	-	-	-	5,753,000	-	1,708	-	-	-	-	-	-	(1,704,395)	9,677,073
1120	Unit Months Available	42,352	-	-	-	19,862	-	2,888	-	-	-	2,888	-	-	-	42,379
1121	Number of Unit Months Leased	11,472	-	-	-	19,862	-	1,187	-	-	-	-	-	-	-	36,057

Housing Authority of New Orleans

SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL AWARDS

September 30, 2008

	Type	Federal CFDA #	Expenditures
DIRECT AWARDS			
U.S. DEPARTMENT OF HOUSING & URBAN DEVELOPMENT:			
Public Housing:			
Operating Subsidy	A - Major	14.850	\$ 25,214,067
HOPE VI - Urban Revitalization Program	A - Major	14.866	9,486,897
Capital Fund program	A - Major	14.872	46,387,941
Housing Choice Voucher Program:			
Voucher	A - Major	14.871	84,307,358
Moderate Rehabilitation	B - Nonmajor	14.856	115,798
Tenant Protection Vouchers	A - Major		24,337,755
DVP	A - Major	14.DVP	28,974,678
FEDERAL EMERGENCY MANAGEMENT AGENCY			
DHAP	A - Major	97.049	<u>58,387,866</u>
TOTAL FEDERAL FINANCIAL AWARDS			<u><u>\$ 277,212,360</u></u>

Note: The accompanying schedule of expenditures of federal awards includes the federal grant activity for the Housing Authority of New Orleans and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.